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GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

Main research findings of the system in major global economic and social trends, policies and emerging issues

Report of the Secretary-General

SUMMARY

In section VI of resolution 1986/51, the Economic and Social Council requested the Secretary-General "to submit to the Council, on a biennial basis, a summary of the main research findings of the system on major global economic and social trends, policies and emerging issues". The present report has been prepared to meet that request. It is based on information supplied by organizations of the United Nations system and/or recent reports and studies published by them. The first report under this mandate (E/1988/65) summarized the findings from an historical perspective, highlighting major themes emerging from work done in the past. The present report concentrates more on findings published in the past few years, including some issues and projections of future conditions for the 1990s and beyond.

* E/1990/92.

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INTRODUCTION

1. The organizations of the United Nations system have continued to collect and examine data on a broad range of economic and social conditions and in many related technical and scientific areas. In so doing they have assisted the international research community at large, including academic and governmental research institutes and policy-making bodies the world over. They have also themselves contributed to the interpretation of this information and made significant contributions to the perceptions of global conditions and issues which are widely diffused throughout the world and influence policies and political debates everywhere, but their role should not be exaggerated. The media of the world play an increasingly important role in this.

2. It must be recalled that the output of studies and research of the United Nations system is prodigious, partly because it is directed to a great number of different audiences. The present report attempts the difficult task of compressing some of the conclusions of this large body of research within a limited format, in so far as it related to major global trends, or policies that are germane to them. The selective bibliography in the annex should be of assistance to readers who wish to pursue subjects touched on rather cursorily.

I. OUTPUT, EMPLOYMENT AND TRADE

3. The growth of the world economy has been slowing down in the past few years. The increase in world trade has outstripped the expansion of domestic output in industrial countries, more closely integrating the global economy, despite protectionist pressures. Nevertheless, trade did not serve as an effective motor for growth in indebted countries. The current account imbalances among the major industrial economies remain large and may worsen in 1990.

A. Policy issues of developed countries

4. Heavy reliance on monetary policy has led to conflicts between external and internal policy objectives. Concerning the management of the twin deficits of the United States, the United Nations University/WIDER World Economy Group (WEG) finds that the United States external current account deficit is neither the result of a strong economy, increased investment opportunities in the United States, nor rising protectionism abroad; it is seen as "the direct result of low national saving". Corrective action - through targeting for a balanced federal budget by the early 1990s and a surplus thereafter - is seen to require significant revenue increases, such as a value-added tax.

5. Instead of relying on a domestic recession to correct the United States external deficit, at greater global costs, WIDER/WEG advocates a 25 per cent real depreciation of the dollar over the next four years. It is assumed that the contractionary effect of increased United States (total) saving, on domestic demand for imports will be offset by the increase in investment demand resulting from the

lower world interest rates that would accompany a tighter United States budget and a reduced United States draft on foreign savings. Reduced interest rates would be the key mechanism whereby surpluses presently financing the United States deficit could finance investment elsewhere, especially in the developing countries. WIDER/WEG rejects the view that the prime response to a reduced United States deficit should be reduced surpluses in the surplus countries.

6. The political changes in Eastern Europe and the Union of Soviet Socialist Republics have great economic implications for Western Europe and the world economy. Economic activity in Eastern Europe in 1989 came to a near standstill. For the Soviet Union, growth slowed to less than half of the planned rate. These countries are reaching for stability in domestic and external economic relations and are pursuing far-reaching market-oriented economic reform. Domestic stability required correcting the large monetary overhang. Lasting economic reform depended on the success of stabilization. The convertibility of the rouble and the liberalization of Soviet external payments arrangements are closely related to the restructuring of the USSR economy and its integration with the international trading and financial systems.

B. Developing countries

7. In Latin America, growth of non-agricultural employment was insufficient to absorb the increasing work force. Employment in large and medium enterprises has dropped in Latin America. Employment creation in the public sector has slowed down, as a result of the need to reduce government budget deficits, and many Governments have stopped being the employer of last resort for university and secondary school graduates.

8. Rural workers have suffered less during the 1980s than urban workers. Many Governments increased agricultural prices to stimulate production. Such policies benefited not only large producers but also smallholders, and subsistence production provided rural producers with some buffer against the hostile economic environment. Agricultural wages have tended to drop along with urban wages in many Latin American countries, but have been pulled up by urban wages in some South and South-East Asian areas.

9. In sub-Saharan Africa there have been three distinct periods: 1961-1972, when incomes per capita grew; 1973-1980, a period of stagnation; and 1981-1987, years of decline. Africa's crisis is characterized by weak agricultural growth, a decline in industrial output, poor export performance, climbing debt and deteriorating institutions and environment. Population growth over 3 per cent is outpacing output. Agriculture has grown by less than 1.5 per cent since 1970. Industry grew roughly three times as fast as agriculture in the first decade of independence, but the past few years have seen a reversal to deindustrialization in many African countries. Severe external shocks, low investment and low return on investment are the main reasons for the region's recent decline. Investment and operating costs are typically 50-100 per cent above those in South Asia. Wage costs are high relative to productivity, particularly in the CFA-franc zone. Intermediate technologies are rarely used. Bureaucratic obstruction, pervasive rent seeking, weak judicial systems, and arbitrary policy decisions add heavily to the cost of doing business and discourage investors.

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10. The decline in real oil prices after 1982 have caused serious adjustment difficulties for countries of the Economic and Social Commission for Western Asia (ESCWA), which have sought to reduce public spending, diversify production and move towards privatization. Political and military conflicts have diverted economic and human resources from development projects. The ESCWA oil economies have faced difficulties in exporting their petrochemical products. Trade among ESCWA countries also suffered from the political and economic situation.

C. Agriculture and other commodities

1. Trends

11. The world agricultural and food security situations changed adversely in 1987 and 1988. Some important agricultural commodity markets shifted from a global surplus to relative scarcity, and international prices rose, after having fallen to their lowest levels in years. Prospects for 1989 were for an increase in food and agricultural production, but not enough to permit replenishment of stocks to a safe level. Agricultural trade expanded in 1987 and 1988, but the export volume of many countries fell because of supply problems, particularly in Africa. The Uruguay Round of multilateral trade negotiations will result in trade liberalization measures for tropical products.

12. Between 1986 and 1988 (first eight months) the overall UNCTAD index of commodity prices of the United Nations Conference on Trade and Development (UNCTAD) in United States dollars increased 9 percentage points for principal non-fuel commodities exported by developing countries, but in special drawing rights (SDR) terms, the index fell by 2 percentage points. In real terms, deflated by prices of manufactured goods, the decline was 6 percentage points. Prices for industrial raw materials rose, as demand increased for some agricultural commodities such as natural rubber and some inputs to the steel industry such as nickel. Price movements were less favourable for Africa because of the composition of its export basket. Prices of tropical beverages declined.

13. Virtually all developing countries have had shortfalls in commodity-related export earnings. For 1983-1987, the average annual shortfall for primary commodities was over $5 billion, on the basis of a four-year arithmetic trend, and the average annual amount of compensatory finance received by developing countries was $992 million from the IMF/CFF and $171 million from STABEX.

a. Diversification and trade barriers

14. Few countries have adopted identifiable, coherent diversification programmes. Only one third of 86 developing countries reduced their dependence on commodities by 10 per cent or more in 1967-1986. Forty-nine showed the same or an increased percentage of earnings coming from one or two commodities, and 42 continued to rely on commodities for at least 80 per cent of their export earnings.

15. Diversification is obstructed by tariff escalation in OECD markets at successive stages of processing for many commodities and by seasonal tariffs and a

variety of non-tariff barriers. The creation of more transparent and open markets should be a consequence of improved participation of enterprises of developing countries in world trade. Technical assistance by international organizations is concentrated on domestic production, marketing and distribution, rather than on export potential, and should be re-oriented.

16. In the area of commodity trade, the World Bank's model of the global coffee trade purports to show that the quotas have reduced real export revenues historically, except for large producers such as Brazil and Colombia. A Bank study of demand for metals showed that they are complements to energy and capital, but substitutes for labour. As real energy prices are now much lower than 15 years ago, there could be an increase in metals intensity of industrial production, an effect that would be reinforced if real interest rates fell and investment increased at a faster rate.

b. Long-term perspective for agriculture

17. Despite the average growth of world agricultural output in the developing countries of 3.2 per cent a year in 1961-1988, the objective of food security is far from achieved and the number of seriously undernourished people is at least 500 million. In sub-Saharan Africa, growth was sluggish and droughts brought a full-scale emergency in the early 1980s. Net cereal imports by the developing countries, which were 20 million tons in the 1960s, reached 86 million tons in 1988.

18. Production has been stimulated by encouraging farmers to use more productive technologies and by public investment in irrigation and other infrastructure. Price policies proved an effective means of encouraging production where the physical and institutional infrastructure was already in place, while non-price policies were instrumental in others.

19. The projections of the Food and Agriculture Organization of the United Nations (FAO) for agriculture in the 1990s are broadly optimistic. They assume that the developing countries will give priority to domestic production, increasing self-sufficiency, and that moves towards a more market-oriented system of world agricultural trade will lead to a gradual attenuation of the unfavourable trends for the developing countries' agricultural exports. On these assumptions Africa will return to growth of agricultural output exceeding that of population growth. Nevertheless, developing countries will continue to be net importers of cereals, and self-sufficiency in food is likely to decline further in Africa. The number of undernourished persons is expected to grow in sub-Saharan Africa, although the majority of undernourished would still be in Asia.

2. Policy implications

20. In East Asia, rice production has expanded. Rice yields increased, but rice declined in relative importance in the rapidly growing economies and ceased to be a source of income growth for the majority of the labour force in rural Thailand, the Philippines, and Indonesia. In these circumstances, diversification seems a natural strategy to follow. However, a World Bank study in Asia has found that governmental interventions in favour of specific crops can lead to inefficiency in

farming systems. It also found that diversification may lead to reduced income in areas with marginal land, and is not possible or profitable without modernized technology for alternative crops.

21. There has been a widespread belief that the existing communal systems of tenure in Africa induce insecurity, reduce access to credit and discourage long-term investment, thereby constraining productivity. An ongoing World Bank study of traditional land tenure in sub-Saharan Africa is finding that traditional land rights systems are more efficient than expected, and evolve toward greater privatization of land rights as the commercialization of farming proceeds.

22. The Bank's study of managing agricultural development in Africa found that macro-economic policy is not sufficient for broad-based agricultural growth, and that increasing agricultural productivity requires decentralized decision-making in which farmers' interests are represented. A study of the comparative effects of economy wide and sectoral policies across 18 developing countries found that on average, sectoral price policies protect staples and tax non-staples, while economy-wide policies tax all. Economy-wide policies generally affect incentives more than sectoral policies do. This suggests that reforming agricultural sectoral pricing policies may not be successful unless there is also general economic reform.

23. Efforts to make credit more affordable and accessible to small farmers have not fully succeeded because regulations mandating low or negative interest rates have led to misallocation of resources by financially non-viable credit institutions. Reliance on donor funds and low interest rates undermines incentives to mobilize savings. Government pressures tend to be strong for loan volume and weak for loan recovery. Subsidized funds often go to politically influential, well-to-do farmers. Low income farmers' access to credit remains limited partly because they are associated with high risk and high administrative costs. However, group and co-operative lending can be made more effective.

D. Energy

24. Oil production capacity became more concentrated in the Middle East, as capacity shrank or grew more slowly elsewhere; this trend is expected to continue in the future. As oil prices remained well below their 1980-1981 peaks, momentum towards efficient energy use, interfuel substitution and the use of modern renewable energy sources waned. The growth rate of nuclear power capacity continued to fall, reflecting concerns about plant safety, proliferation of nuclear weapons and disposal of radioactive waste. However, a new awareness of the potential of trade in liquified natural gas is developing, and several producers have announced plans for ambitious expansions of capacity.

25. Political and economic change in the Soviet Union and Eastern Europe will have a substantial impact upon the global energy sector. It is not yet clear whether economic reforms will raise or lower their consumption of energy. Improved access to modern technology might offset rising domestic consumption requirements, allowing greater Soviet oil exports. On the other hand, Eastern European oil imports might shift from the Soviet Union to the Middle East.

E. Services

26. During the 1980s, exports of commercial services have expanded twice as fast as exports of merchandise, now account for about 20 per cent of world trade, and are an integral part of the current multilateral trade negotiations. Tourism and transportation account for about 60 per cent of trade in commercial services. Current statistics understate the actual level of services because, among other reasons, new forms of international transactions are for the most part not captured by existing data collection techniques.

27. The share of employment provided by service industries is rising rapidly. Services are playing a major role in the globalization of markets. Services such as banking, insurance, communications and transportation can have a major impact on economic efficiency. Advances in communications are stimulating trade in some services, such as entertainment and medical services. Global financial services such as credit cards and travellers cheques are complementary to tourism. Increased trade in data processing services leads to increased demand for software, maintenance of hardware, consulting and related services.

28. An alternative to exporting services through telecommunications or the temporary movement of people is foreign direct investment (FDI) in service industries. As of the mid 1980s, about 40 per cent of the world stock of FDI and approximately 50 per cent of the annual flow was in services, much of it in support of parent industrial firms.

29. The changing pattern of international trade has led to important changes in the world shipping industry. The "oil shocks" during the 1970s and other developments led to large excess tonnage, cut-throat competition and restructuring. There is now a better balance between supply and demand. Only a few developing countries are effectively participating in world shipping and multimodal transport. Most developing countries have neither the financial means nor the cargo basis to justify heavy investments in shipping. Co-operation among developing countries, therefore, is essential if they are to up-grade their involvement in shipping. The inclusion of shipping services in the framework agreement under negotiation in the General Agreement on Tariffs and Trade (GATT) would have far-reaching implications for the development of shipping in developing countries as well as on multilateral agreements negotiated in UNCTAD. A study by UNCTAD on freight rate negotiations shows that there are many shortcomings in shipper/shipowner consultations.

30. The developing countries' share in the volume of world direct insurance premiums is about 5 per cent. The vast majority of developing countries are net importers of insurance services. In only a few developing countries is the life insurance sector larger than non-life. In more than half of the countries surveyed by UNCTAD the automobile insurance sector represented more than 50 per cent of the total business and in most countries is plagued by heavy losses. There has been an increase in the number of reinsurance companies, many of which are inexperienced or financially weak. Developing countries rely heavily on the services of reinsurance brokers. Ceding companies need to make a careful choice of their reinsurers, and the insurance supervisory authorities of developing countries should assist in these choices.

F. Transnational corporations

31. The role of transnational corporations in the world economy grew rapidly in the last half of the 1980s. Annual flows of foreign direct investment more than tripled between 1984 and 1988. However, the proportion going to developing countries fell from over 30 per cent in the 1970s to under 20 per cent in 1984-1988. Many developing countries have streamlined their administrative structures, eased their regulations, and offered significant incentives to attract foreign direct investment. However, only countries with large internal markets, substantial productive resources, or locations in proximity to large markets in developed market economies have been successful in attracting greater inflows of foreign direct investment. The outcome of negotiations on trade-related investment measures (TRIMs) in the Uruguay Round may have implications for host countries that have employed them to attract FDI.

G. Trade regulation and shifting trade blocs

32. Failure of the Uruguay Round could cause the emergence of trading blocks that are protectionist against each other and non-participants. Further erosion of commercial relations between industrial countries and between debtor and creditor countries in 1988 threatened to move the international trade and payments system further from the path of multilateralism broadly adhered to since the 1940s.

33. The most serious impediment to market access has been the proliferation of non-tariff barriers, which currently affect almost 30 per cent of exports of the developing to the developed countries. There has been a tendency to establish linkages between commitments about trade in goods and concessions in services, foreign direct investment and protection of intellectual property. There has also been an erosion and in some instances unilateral termination of the generalized, non-discriminatory and non-reciprocal character of the GSP, which has played an important role in facilitating developing country exports.

34. Whereas developing countries on balance have been liberalizing, albeit from a very restrictive base, the industrial countries have intensified their recourse to quantitative import controls. However, in 1988 relatively few new measures were taken by industrial countries in this area, in compliance with the Uruguay Round pledge of a "standstill" on trade-restricting measures. In the developing countries, liberalization of trade and exchange systems may have accelerated in certain areas such as capital restrictions. In 1988, 20 countries applied some 50 different liberalization measures to imports, in some cases wide-ranging ones, whereas 6 countries imposed or intensified 13 import restrictions. In 1988 there were no new measures affecting international service transactions in industrial countries, while a number of developing countries liberalized their treatment of service transactions.

35. Trade among developing countries declined in the 1980s. The biggest decline was in manufactures. Trade among integration groupings fared badly. UNCTAD's analysis of tariffs and non-tariff barriers finds a high degree of protectionism among developing countries. The entry into effect of the GSTP in 1989 is a major

achievement for trade co-operation, but it should be broadened in membership and deepened in product coverage.

36. A World Bank study of the timing and sequencing of trade liberalization in 19 countries shows that countries that have persevered in liberalization tend to be smaller and poorer in natural resources, but to have a higher per capita income than countries that did not. The more successful countries had comparatively stable political régimes, stable real exchange rates, lower budget deficits, and considerably higher export growth than those whose attempts to liberalize foundered. Strong rapid liberalizations tend to stick; radical relaxation of quantitative restrictions is a vital first element. Liberalization has not reduced industrial production, even in the short run, and transition costs from unemployment have been small. Depreciation in the real exchange rate promotes the survival of a liberalization policy, and vice-versa. Nominal devaluation, together with tight fiscal and monetary policies, appears to have been a pre-condition for depreciation in the real exchange rate. Disintegration of a liberalization effort has almost universally been preceded by a balance-of-payments crisis.

37. Preliminary results of a World Bank study of the effects of tariff removals for the countries of the Organisation for Economic Co-operation and Development (OECD) and the least developed countries indicate that preferential tariff removal is likely to increase the total exports of the least developed countries to the OECD countries by up to 15 per cent. Removal of the Multi-Fibre Arrangement (MFA) would have no short-term effects on most of these countries. A related study found that MFA restrictions have tightened over time, especially for relatively new suppliers, and more so for clothing than for textiles. In products for which major developing exporters had binding quotas, other developing suppliers saw somewhat increased market share, but the main beneficiaries were United States domestic producers.

a. Ongoing research and related technical assistance

38. UNCTAD will further develop its Trade Policy Simulation Model, which simulates the effects of trade liberalization, particularly in the area of tariffs; non-tariff measures can also be included. Studies are also under way of enterprises that have trade-distorting policies, including restrictive business practices. A United Nations Development Programme (UNDP)/World Bank project is assisting developing countries to design and implement trade reform packages. The project should help to identify appropriate timing and sequencing of trade policy reforms for countries at different levels of development. Country studies by UNDP, UNCTAD and GATT on the response of the business community to trade policy reform have identified factors inhibiting an appropriate supply-side response - such as bureaucratic red-tape, a proliferation of committees, councils, and institutions dealing with export promotion, and an absence of export credit facilities.

II. DEBT ADJUSTMENT, GROWTH AND HUMAN RESOURCE PROTECTION AND DEVELOPMENT

39. In 1988 Latin America transferred almost $US 30 billion abroad, representing a quarter of total exports and about 4 per cent of GDP. Since Governments could not collect sufficient taxes or otherwise reduce domestic absorption to finance these payments, they resorted to monetary financing, which largely explains the surge in inflation to 470 per cent in 1988, compared with almost 200 per cent in 1987. Government expenditure on social services and investment fell precipitously and the inflationary context prevented any significant private sector investment.

40. Sub-Saharan Africa's long-term debt has risen 19-fold since 1970. Debt service obligations were 47 per cent of export revenues in 1988, but only about half were actually paid. More than 100 debt reschedulings have been negotiated, but arrears still accumulate.

41. A World Bank study on adjustment-lending in Africa found that countries that received adjustment loans performed moderately better than other countries. But many improvements have not been sustained; budget deficits have been increasing, and the investment ratios have worsened. Although some social indicators improved, caloric intake has on average stagnated or declined during the 1980s. A study of the Economic Commission for Africa (ECA) found that inadequate understanding of the process of economic development, shortages of human and physical capital, and weakness of a number of institutions have impeded development. Ad hoc crisis-management of development issues and a lack of clear national policies clouded the vision of African decision makers about the impacts of different national policies on African economies.

A. Macro-economic and structural issues

1. Debt, adjustment and growth policy

42. In 1988 UNCTAD estimated that a once-and-for-all cut of 30 per cent in commercial bank debt, accompanied by new lending by multilateral agencies and vigorous efforts by the major debtor countries to invest and export, was needed to resume growth. The debt relief required was found to be equivalent to about one half of the discount at which their debt was traded on secondary markets. Creditors would be relieved of their obligation to participate in "involuntary lending", and the progressive strengthening of debt-servicing capacity would reduce credit risk.

43. UNCTAD also examined fluctuations in commodity prices and interest rates, and the cycle in international bank lending. The frequency and scale of these unpredictable changes were attributed partly to shifts in economic policy since the late 1970s, such as the floating of exchange rates, the adoption of variants of monetarism, and financial deregulation. Uncertainty was slowing investment in equipment and structures. The instruments that could provide protection against fluctuations were costly and not accessible to all developing countries.

44. In 1989 UNCTAD found that external shocks disturbed internal fiscal balances. Adjusting to the deterioration in the balance of payments - through deflation, currency depreciation and increased domestic interest rates, and through nationalizing external liabilities of private firms and granting private debtors exchange rate guarantees and preferential rates - caused serious fiscal damage which gave rise to excessive money creation or a rapid build-up of internal debt. One consequence had been financial disorder and stagnation. Another had been to intensify class conflicts and political instability, violence and threat of social upheaval. Orthodox policies had exacerbated inflationary pressures by requiring sharp currency depreciation and other price increases. There was insufficient slack for heterodox policies to succeed in accommodating income claims through increases in capacity utilization. UNCTAD concluded that the external resource constraint must be greatly relaxed to end the pressure on living standards; and the social classes must forge a common understanding on how to share the costs of adjustment and the fruits of recovery, and reform the fiscal system accordingly.

45. A study by the UNU/WIDER World Economy Group has suggested that interest on debt be paid in domestic currencies, which would be available to support reinvestment in the debtor countries. The International Fund for Agricultural Development (IFAD) also has suggested this. The policy challenge is to reconcile debt repayment in local currency with the need to renewed lending to developing countries. The study also drew attention to the problems of flight capital.

46. A study for UNU's Third World Regional Perspectives Project for Africa found that high interest rates have led to capital flight from poor to rich countries and that world market prices may be more artificial, because of subsidies, than so-called "administered" prices, which are often closer to the equilibrium of local supply and demand in developing countries. The equilibrium exchange rate is not revealed by transactions in a parallel market which is often only marginal; and devaluation has little effect on the balance of payments. The study also found that cutting social expenditures is an ineffective substitute for necessary reform of social welfare development. Wage freezes and cuts accentuate distortions in the distribution of income and in the allocation of resources. Trade liberalization and the dismantling of protection could lead to deindustrialization. For the 1990s, therefore, the UNU Africa study concluded that the need is to pursue development that is national and popular in content. This requires increasing South-South co-operation and the evolution of the world system towards more political and economic balance.

2. Policies for Africa

47. ECA has devised a policy framework intended to transform and diversify Africa's production capacity and increase the productivity of investment. The policies proposed would concentrate on land reform, selective subsidies, guaranteed minimum prices for food crops, credit rationing, etc. They would be complemented by demand management policies such as expenditure switching and removal of subsidies to parastatals. Their implementation will require greater institutional efficiency, increased accountability of public officials, and fuller popular participation in decision-making and programme implementation.

3. Debt management and financial intermediation

48. A World Bank study of private investment in Chile in the 1980s found that it was sensitive to the real exchange and interest rates, and changes in policy régimes. Investment was highly procyclical. The benefits of a high and stable real exchange rate for fostering investment were found to depend on the relative importance of the traded goods sector.

49. A Bank study of firms in Côte d'Ivoire suggested that changes in export subsidies and import duties could improve the balance of payments in the short run. Domestic demand for tradable goods declines with higher prices; a 10-per-cent increase in price generates a 12-per-cent increase in the volume of exports; of which 2 percentage points are attributable to increase in output and 10 percentage points are attributable to reduction in domestic demand.

50. Alternative modes of finance, including equity and quasi-equity, offer advantages of risk sharing and managerial participation over floating-rate, general-obligation borrowing. The Bank's analysis of the impact of collateralized debt conversions and debt-equity swaps on price inflation showed that:

(a) Private agents value foreign liabilities at more than secondary market price;

(b) Debt-equity swaps raise inflation, equity prices, and debt prices initially may either raise or lower debt prices but in the long run.

51. The Bank also found that labour market distortions make devaluation less effective. Nominal wages in the formal sector are more responsive than in the informal sector to changes in the prices of tradables and the nominal exchange rate. Nominal devaluations thus increase the wage gap between the formal and informal sectors.

52. A Bank study of more than 20 developing countries found that labour costs have a big impact on non-traditional exports; most of the international differences in labour costs are associated with differences in labour productivity. Raising labour costs, without changes in productivity, reduce exports.

4. Public expenditures and deficits

53. Government expenditure rose relative to GDP in the 1970s and early 1980s, in response to external supply shocks and ratchet effects. In industrial countries, central government outlays rose from 26 per cent of GDP in 1973 to 34 per cent in 1985. In developing countries, there was a shock-induced rise in the 1970s of 4 percentage points, and during 1980-1985, the escalation in interest payments raised outlays another 4 points, to 28 per cent of GDP. Tax revenue increased at the same rate as GDP: the fiscal deficit, which was less than 2 per cent of GDP in both industrial and developing countries in 1973, increased to more than 5 per cent in 1985.

54. The share of developing countries' interest payments in GDP escalated from 6 to 14 per cent between 1980 and 1985. The burden of adjustment fell largely on capital expenditure. There was little room to cut government consumption. Several countries maintained consumption by reducing domestic savings, or by widening their external gap to levels which could not be sustained.

55. Empirical findings concerning fiscal deficits and inflationary pressures for various groups of countries show that, contrary to expectations, the relationship between these variables was extremely weak. Analysis of a large sample of developing countries suggests that fiscal deficits per se had hardly any consistent impact on inflation, except through the mode of financing. In the Western Hemisphere an increasing proportion of the deficit was financed by credit from central banks, which was inflationary. At the other extreme, in Asia only about one tenth of fiscal deficits were financed by central banks. In Africa, the fiscal deficit rose to 7 per cent of GDP in the 1970s before it was brought down to about 4 per cent in the 1980s, of which one half was financed by central bank credit. The inflation rate in this region first slowed down and then fluctuated between 12 and 14 per cent.

56. An analysis by the World Bank suggests that highly indebted countries are better off raising conventional taxes and cutting current spending, rather than raising taxes on financial intermediation and cutting public investment. But shifting policies may require new external financing or debt relief. Most debt crisis countries increased domestic financing through taxes on financial intermediation which causes capital flight and financial disintermediation. Small increases in the rates or coverage of broad-based taxes (such as income or consumption taxes) are probably less distortionary. Conventional broad-based taxes penalize mainly consumption, while the tax on financial intermediation falls primarily on investment. However, it takes more time to raise conventional taxes and cut current spending than to cut public investment.

57. A study of different approaches to stopping inflation in Latin America found that orthodox policies based on a tight fiscal stance and restrictive domestic credit are successful for stopping hyperinflation. They are less successful in stopping high inflation because of inertia in the inflation process. Heterodox programmes - which combine the fiscal adjustment with incomes policies - are more successful than orthodox programmes in the short run, but unemployment and overvaluation of the currency soon appear.

5. Security, disarmament and resources for development

58. Military expenditures amounted to about 5 per cent of total world output in the mid-1980s. On the average, Governments in both developed and developing countries allocated 13-15 per cent of their total expenditure to defence. In industrialized countries, military expenditure per capita was $550 in 1984, as against public expenditure of $497 on education and $469 on health; in developing countries, per capita military expenditure was $42, which was greater than combined public expenditure on education and health ($39). Recent steps toward disarmament taken by the Soviet Union and the United States should markedly reduce their military expenditures and those of their allies. However, conflicts originating

from ethnic and religious differences continue in several parts of the world and may grow in severity.

6. Savings, financial development and entrepreneurship

59. Given the poor prospects of increasing the inflow of foreign capital, policies that aim at increasing national savings and improving the allocation of financial resources to productive investment will play a major role in the 1990s. Budget policies contributed on average about 50 per cent to the rapid increase of inflation in developing countries in 1983-1987, which slowed down financial development and shifted savings from financial towards real assets, shortened loan maturities and increased capital flight. Financial development was also negatively affected by excessive reserve requirements and forcing banks to hold low-yielding government bonds. Governments' ineffective efforts to control tax evasion had a negative impact on domestic financial development since they led to financial disintermediation and capital flight.

60. Selective credit policies have had some negative effects, including high default rates, widespread bank insolvencies, higher interest rates in informal credit markets, and the retardation of securities market development and therefore should be used sparingly.

61. Innovations by commercial banks, such as group lending and money shops, and the establishment of banks specialized in servicing small customers, such as the Rural Banks in Ghana and the Grameen Bank in Bangladesh, have been successful and are spreading to other countries. A recent World Bank study found no significant effect of the real interest rate on the level of saving. Fiscal deficits that raise real interest rates do not necessarily cause a corresponding rise in saving. The deficits could, therefore, crowd out private investment. Rapid income growth increases the saving rate, in the short and medium run.

62. The United Nations system has contributed to the promotion of indigenous entrepreneurship in developing countries through research, training and technical co-operation for many years. Entrepreneurs play vital roles in innovation, early-stage imitation of innovations, and the formation and management of small businesses.

B. Adjustment and human resource protection and development

63. The overall social situation of the developing countries has improved during the past three decades. While income gaps between North and South have continued to widen, gaps in basic human survival have narrowed. The link between economic growth and human progress is not automatic; even in stringent budgetary conditions, significant improvement in human development can be achieved.

64. Analyses by the United Nations Children's Fund (UNICEF), the International Labour Organisation (ILO), UNU/WIDER and, more recently, the World Bank indicate that adjustment policies in many cases have aggravated the situation of the poor. Real wages have dropped, access to health and to education has been reduced, and in

some countries the decline in infant mortality has slowed down or has stopped entirely. New financial instruments have been created to stretch the adjustment process over a longer period, such as the World Bank's structural adjustment loans. Total resources for adjustment lending have, however, not increased much. But even in difficult economic circumstances, some countries managed better than others to protect vulnerable groups.

65. UNICEF's "adjustment with a human face" would require that the effects of adjustment programmes on the most vulnerable groups, particularly children, be considered in advance, that the programme include policy measures to improve the productivity and incomes of the poor, and that subsidies and services needed for survival be reinforced rather than curtailed. Probably the most discussed example of a compensatory programme is Ghana's Programme to Mitigate the Social Consequences of Adjustment, developed with the help of international agencies. The principal question is whether compensatory programmes should be so large as to supplant existing national programmes, or be regarded as emergency programmes.

66. Some developing countries have begun to re-evaluate the policy of charging uniformly low prices for such social services as education and health, but the reform of social service pricing is controversial. More empirical evidence is needed, including systematic evaluations of actual attempts at social sector price reform, to show whether proposed measures to protect the poor are feasible as well as effective.

67. Emphasis on immunization and disease control has been accompanied in some countries by a shift away from curative to preventive health care. In some cases, such changes in policies have been accompanied by increased user charges even at times when economic hardships increased. Evidence is mixed whether this increased the supply of health services to the poor or not.

68. Crucial decisions are often made on the basis of assumptions regarding policies' welfare effects, but the extent of such effects are often difficult to ascertain accurately. Current research of the United Nations Research Institute for Social Development (UNRISD) in this area focuses on identifying appropriate indicators of well-being and ways to estimate them efficiently. Preliminary results suggest that successful data-gathering programmes require realistic appraisal of national statistical capabilities and co-operation with any involved foreign or international agencies. UNRISD is investigating innovative techniques of data gathering and processing, and is using them to identify disadvantaged groups.

1. Poverty and related social conditions

69. Poverty remains acute in developing countries. The number of poor people is still largest in Asia, but the worst manifestations and perhaps the most intractable problems are now in Africa. During the 1980s the numbers of the absolute poor have increased in the developing countries as a whole (see sect. I.B). In Africa, they also have increased relative to the total population. Where growth has been sustained and rapid, as has been the case in many countries in Asia and a few elsewhere, poverty has declined both in absolute and relative terms.

70. UNRISD finds that recent structural changes have contributed to an apparent weakening of the state and in many cases to increasing inequality. Many people have coped with drastic falls in their incomes and living standards by developing such "survival strategies" as more intensive exploitation of family labour, further pressures on already overworked women, multiple jobs, adjustments in food consumption, and pursuit of illegal activities. Further UNRISD research on the social impacts of the economic crisis in Africa and Latin America will explore informal markets and "subterranean" activities, and appropriate concepts and measurement tools to capture the changing social and economic situation.

71. The impact of government programmes as a whole - the system of taxation, subsidies and tax incentives, regulations, the "inflation tax" - has been biased against the poor. However, despite low per capita income and modest growth rates, a few countries have managed to design and implement policies which have been highly successful in improving the lot of the poor.

72. Critical forms of poverty are not short-term phenomena requiring ad hoc mobilization of targeted intervention resources. They are based on structural situations which produce and reproduce poverty and marginalization. Mechanisms ensuring a regular minimum family income through employment or social transfers are the sine qua non for the eradication of poverty. The Committee for Development Planning finds that the primary requirement for the eradication of poverty is sustained political commitment. What is needed is not more anti-poverty projects but a development strategy centred on the elimination of poverty and the related improvement of women's social, economic, cultural and legal status. In designing a strategy for poverty alleviation, policy makers should examine the net impact of all governmental activities, not just those with an anti-poverty label. A well-conceived strategy should include most of the following measures:

(a) Redistribution of land;

(b) Greater provision of agricultural services and rural infrastructure;

(c) Greater investment in human resources development;

(d) Removal of bias against the poor in expenditures on infrastructure;

(e) Social and legal reforms to enhance the full participation of women in economic and social institutions;

(f) Removal of unnecessary constraints on urban industry, especially small-scale enterprises;

(g) Ensuring that prices of credit and other inputs reflect real scarcities;

(h) Family planning programmes and provision of birth control facilities;

(i) Greater democracy and participation of the poor - in local electoral politics and through the creation of organizations that support their cause.

73. International co-operation can provide effective support by creating a global environment conducive to accelerated and sustained growth (as discussed in II.A, above). The Committee for Development Planning finds that the IMF, World Bank and regional banks could help by setting conditions for lending which take into acccunt its impact on poverty. While several United Nations agencies focus quite explicitly on poverty reduction, more funding is needed. Of major importance is technical assistance, particularly training.

2. Hunger and food security

74. The persistence of widespread hunger and malnutrition has focused attention on food distribution. Much research has focused on the relations between employment, income, and entitlement to food and other necessities.

75. The entitlement approach, which has been carefully studied by UNU/WIDER, is disaggregative; the focus for a given region is primarily on occupation groups. In Africa, the only region in which food output per head has fallen significantly over the past decade or two, food production is also the source of income and livelihood for vast sections of the population. There need not have been a collapse of food entitlements if the food output decline had been compensated for by income from other sources. Economies elsewhere have experienced declines in food output per head without either famine or hunger. The entitlement approach implies more diversification, rather than concentrating on food output.

76. There may be inequitable distribution of food within a family - e.g., gender bias. In such cases, actions can come from political as well as educational and social movements. UNU/WIDER is exploring these and other aspects of entitlement relations.

77. Anti-famine policy calls for anticipation, relief, and prevention. Economic analysis should focus on entitlement failures of particular occupation groups rather than on output fluctuations as a cause of famine. Media can supplement economic analysis to provide adequate early warning. How urgently a Government will act will depend on the forces that operate on it. Public knowledge and involvement can be crucial. Other organizations, institutions and groups can play an effective part in famine relief.

78. Some economies have suffered from chronic hunger, as in parts of South Asia and Latin America, in addition to parts of Africa. Mortality from regular deprivation tends to exceed by a large margin the mortality resulting from famines and other disasters, but combating endemic hunger is harder than conquering famines. Ensuring sustained entitlement for all sections of the population is difficult.

79. In some countries, such as the Republic of Korea, hunger has been eliminated through rapid economic growth. Sri Lanka and China also have dealt effectively with endemic hunger by public provision of food. Interventionist activism has sometimes been only partially successful, as in West Bengal (India), which UNU/WIDER is studying further.

80. The World Food Programme (WFP) finds that a considerable amount of field research has been undertaken to understand how poor households and communities manage their food resources and distribute food aid. Many aid-assisted projects aimed at alleviating hunger have interfered with traditional coping strategies, and few have systematically supported them. The best way to reduce hunger permanently is to give people the means to earn higher and more stable incomes.

81. The economic crisis has caused a reorientation of many food-related policies designed to provide cheap food to urban consumers and subsidized inputs to the farm sector. Lack of State resources has created pressure to rely more on the open market. But there are no countries in which governmental intervention has been eliminated. Which subsidies to cut, and by how much, becomes a political problem. UNRISD has found that in some cases new alliances between previously antagonistic social groups have sprung up; in other cases old rifts between producers and consumers have deepened.

82. When world food prices rise, the cost of food for low-income, food-deficit countries also rises. These countries require special assistance to bridge the transition difficulties and to raise domestic production. Similarly, while higher prices encourage surplus farmers to increase production, small food deficit farmers, the landless and other poor groups that have to purchase food are adversely affected.

83. The often neglected smallholder sector provides food and employment to the bulk of the population in many low-income developing countries. Only by releasing the underutilized productive potential of the large numbers of small and marginal farmers, the landless and rural women, will the difficult situation in these countries be redressed.

3. Education

84. Economic and social modernization require widespread primary education and literacy, and adaptation of the educational system to local needs. Despite a declining rate of illiteracy between 1970 and 1990, the number of illiterate adults increased by 94 million to a total of 920 million. Females have lower literacy rates than males in all developing regions. Public expenditures for education in developing countries stagnated during the late 1980s. In industrialized countries, although primary education is universal and most children receive secondary education, there are about 20 million illiterate adults and an even larger number of functional illiterates.

85. Many of the higher-income developing countries reached gross enrolment rates of 100 per cent for primary school during the 1970s, and dramatic increases in primary enrolment were achieved in the lower-income regions. In the 1980s, the gross enrolment rate continued to improve in South Asia but it fell back in sub-Saharan Africa. The number of unenrolled children aged 6-11 will remain over 100 million in the developing countries in 2000.

86. With little economic growth expected in sub-Saharan Africa and many least developed countries, it will be important to reduce the cost per student and/or to

increase the share of GDP devoted to education. For secondary and higher education, high costs per student tend to limit the growth of enrolment. Greater use of fees, student loans and means-tested entitlements rather than general subsidies would increase the resources available for secondary and higher education and allocate them more equitably. Sending students abroad for third-level education in specialized fields probably is less expensive than rapidly building up the necessary physical facilities and importing foreign teachers. However, it contributes to the "brain drain" and can be costly in foreign exchange. Moreover, in a growing number of developing countries, many university graduates are encountering great difficulties in finding employment, even while there are shortages of adequately trained technicians.

87. It is often assumed that there is one dominant training path for certain occupations. Yet a World Bank study in Colombia, based on nearly 5,000 workers in seven occupations, found that even in a highly centralized training system there were many alternative training paths leading to the same occupation. There was also much more flexibility in training markets than is generally supposed.

88. Women's economic contribution generally is significant, and their participation and productivity is heavily influenced by basic education as well as by access to productive inputs, credit and services. The economic returns from women's education are as high as the returns on men's education, and social returns are higher; but girls' school enrolment is much lower than boys', particularly at the secondary level, and should be raised to parity.

89. To help member States mobilize resources for basic education for all, the United Nations Educational, Scientific and Cultural Organization (UNESCO), UNDP, UNICEF and the World Bank convened, in March 1990, a World Conference on Education for All, which focused on improving the relevance and methods of education, including learning materials and teacher training.

4. Health

90. The infant mortality rate is a good indicator of health conditions. In the past decade it decreased in nearly all countries, but in countries representing 29 per cent of world population it is still above 100 per 1,000 live births, while it is less than 20 in the developed countries. The average for the least developed countries is projected to be 103 from 1995 to 2000. Roughly 5 million women, 99 per cent of them from the developing world, die each year from pregnancy-related causes. In developing countries, public and private expenditures for maternal health care have been approximately 10 per cent of all health sector expenditure.

91. Global nutrition has improved over the past 25 years, but some 500 million people are malnourished. During the first half of the International Drinking Water Supply and Sanitation Decade (1981-1990), some progress was made in extending water and sanitation to urban and rural populations. However, the goal of full coverage is unlikely to be met by the year 2000, especially in the rural areas of low-income countries.

92. In Africa and Asia, infectious and parasitic diseases account for about half of all deaths, the majority occurring among infants and young children. Many of these diseases can be overcome by improvements in environmental and living conditions. Six major preventable diseases of childhood - diphtheria, pertussis, neonatal tetanus, poliomyelitis, measles and tuberculosis - kill some 4 million children each year and cause disability in 4 million more. These diseases have been selected as targets for immunization in most countries, but some countries still have not allocated the relatively modest resources needed. Tuberculosis and malaria also remain major public health problems. Viral and bacterial epidemics are still a threat. Acquired resistance and natural insensitivity of micro-organisms and other vectors to available drugs and pesticides have slowed progress in disease reduction and increased the cost of control. Acquired immunodeficiency syndrome (AIDS) and the entire spectrum of diseases associated with human immunodeficiency virus (HIV) infection have rapidly emerged as a global public health problem. The great cost of caring for AIDS patients threatens to divert resources away from other health programmes. The World Health Organization (WHO) and the World Bank have developed a method for rapidly estimating the economic impact of an individual contracting AIDS and have applied it in Zaire, Brazil and the United Republic of Tanzania. While the direct cost can be a substantial burden, it is typically less than 10 per cent of the total cost per case.

93. Maternal and child health services have improved, but care for children under five years of age is still limited. A strong case can be made for a more cost-efficient allocation of resources, including reorientation of health services towards primary health care. Primary health care could be provided in the developing countries for $10-15 per person per year, and as little as $1-5 per capita could lead to a significant reduction in child mortality.

94. A World Bank study of Côte d'Ivoire and Peru suggests that, in relatively well-off regions, introducing service fees approaching marginal cost causes modest reduction in demand, but that in poor areas such fees will deprive the poor of modern medical care. Income-linked price subsidies are needed for access to medical care for the poor.

III. POPULATION AND HUMAN SETTLEMENTS

A. Trends in population growth, aging and international migration

95. World population reached 5 billion in 1987 and will reach 6.25 billion in 2000. The total dependency ratio is expected to fall in the developing countries, as fertility declines. As the relative size of the elderly population increases, a growing burden will be placed on the economically active population in all regions. International migration can be expected to accelerate further in the 1990s, as income differentials increase.

96. Aging of the world's population will continue with virtual certainty, giving a strong demographic foundation for long-range policy formulation and planning. Fertility and mortality will continue to decline in many countries, slowing the growth rate of the total population and increasing its median age and the share of

the elderly. These impacts will over several decades dramatically change the age structure, with many economic and social implications. The median age has been increasing in both developed and developing countries and is expected to reach 24 years in 1990, 26 years in the year 2000 and 31 years by the year 2025. The elderly (aged 60 and older) are expected to comprise one fourth of the population of the developed regions in 2025, compared to only one eighth in the developing countries, where there will be an increase in the proportion who are of working age.

97. Evidence about international migration is inadequate. Data gathered during the 1980 round of censuses indicate that the number of international migrants in the world amount to at least 77 million people, 48 per cent of whom were women. UNHCR sources indicate that the number of refugees world wide increased from 8.5 million in early 1980 to about 12.3 million in early 1987, excluding 2.2 million Palestinians. Refugees in their own countries, fleeing natural disasters or civil strife, have also become a major problem.

1. Urbanization

98. It is projected that 43 per cent of the total world population will be living in urban areas by mid-1990 and 47 per cent by the year 2000. Almost three quarters of the population in the more developed regions and over one third in the less developed regions are estimated to reside in urban areas in 1990. The future increase in urbanization will be most rapid in the less developed regions, except in Latin America, where over 70 per cent of the population already reside in urban areas in 1990. The populations of Asia and Africa are only 30-35 per cent urban but are projected to have over half of their populations in urban areas in 2025. Over 400 cities in the world are expected to have over 1 million people by the year 2000; 45 will have populations of more than 5 million and 34 of those will be in less developed regions.

99. UNCHS has shown that cities need not produce environmental degradation. Cities could achieve a better quality of life in less than a decade with improved management techniques, adequate investment in services and maintenance of facilities, appropriate choice of technologies (especially for transportation and construction), efficient use of energy, and improved waste disposal.

100. UNESCO has found that disadvantaged urban communities have many ways of adapting to precarious living conditions. The autonomous responses by the urban poor to their critical situations efficently complement governmental development efforts. (See related discussion in sect. VI.B.)

2. Shelter and services

101. In the 1980s approximately 1 billion people were estimated to have inadequate housing; that number may double by the year 2000. Rapid urbanization should make the provision of shelter and services to the urban poor a high priority issue for Governments in most developing countries.

102. The difficult economic situation in many countries in the early 1980s resulted in a sharp decrease in resources for human settlements investment and related services. A World Bank analysis of housing in Malaysia found that existing taxes, subsidies, and regulations are biased against low-cost housing. Because private developers cannot respond rapidly, changes in demand are more likely to raise prices than to increase supply.

103. The deteriorating situation prompted the United Nations Centre for Human Settlements (Habitat) to elaborate the Global Strategy for Shelter to the Year 2000. The Strategy aims at encouraging the participation of non-governmental actors in shelter production, delivery, and maintenance - by mobilization of finance, revision of unrealistic standards, promotion of appropriate building materials, and identification of new approaches to settlement planning.

104. The World Bank has found that housing finance has special problems in the developing countries that do not have well-developed long-term capital markets. Subsidies for the few increase costs for the non-subsidized majority. In some countries the subsidies have contributed to macro-economic instability. Research suggests that housing can be financed without subsidy for all but the poorest families. The basic conditions include macro-economic policie conducive to stable real interest rates and mortgage instruments that protect both borrower and lender from large unexpected fluctuations in real repayment terms and real incomes.

IV. SCIENCE AND TECHNOLOGY

105. Technological competitiveness is a long-term determinant of economic growth and international trade. Technology-intensive products dominated the growth of world trade during the 1980s. World demand for computer services is growing at more than 20 per cent per year. The world production of information technology systems is estimated to grow at 15 per cent per year during 1986-1995 and that of software at 20 per cent. At the same time, there is a continuing decline in the intensity of raw materials in finished products due to technological change, and new technology is spreading faster in developed countries than in developing countries. Semi-automated processes and geographically dispersed production already prevail over traditional techniques in a large number of manufacturing sectors.

106. The economic setbacks of the 1980s caused major shifts in technology flows. The transfer of new technologies has been more rapid among countries with higher levels of technical development and greater financial resources. Joint ventures and licensing are rising more rapidly than foreign direct investment. The 1980s have seen a tendency towards liberalization of foreign investment and policies on technology transfer in developing countries, reflecting the negotiating experience gained over the past decade.

107. Due to the relative ease of copying, and the increasing incidence of counterfeiting and other infringements on intellectual property, there is a growing desire on the part of intellectual property owners to secure better and more uniform protection in developed and developing countries alike.

108. Many Governments are sponsoring basic research and technological innovation, with an emphasis on information technologies, electro-optics, and new materials. The newly industrialized economies are projected to double their semi-conductor production by the year 2000. Telecommunications technologies and microcomputers offer opportunities for meeting many needs in the developing countries, such as improving market mechanisms for small businesses and developing rural areas. The international market for satellite communication technology, including relatively low-technology ground receiving systems, will grow rapidly. A growing demand for space applications has created a strong international market for satellite communication technology, including low-technology ground receiving systems. An assessment of the evolution of space technologies is being undertaken by the Centre for Science and Technology for Development.

109. Biotechnology innovations have been applied to renewable energy, waste recycling, pollution control, agricultural and pharmaceuticals production and other aspects of medical treatment. World output of biotechnology products is expected to grow by 9 per cent per year until the year 2000. Many developing countries have successfully applied biotechnology. Nitrogen-fixing biotechnology is estimated to increase corn yields in Mexico and Central America by from two to four times.

110. The Committee on Science and Technology for Development and the General Assembly have recommended that every developing country should try to reach a level of 1,000 persons employed in science and technology per million population by the year 2000. Related financing should be at least $30 per capita or 4 per cent of GNP, and spending for research and development should be at least 1 per cent of GNP. External funds from bilateral and multilateral sources for science and technology should be about 25 per cent of total official development assistance, of which 6 per cent should be allocated to research and development.

111. Developing countries should exchange information on the application of new materials, harmonize norms and standards, develop policies for the production and utilization of new materials, and identify feasible "technological niches". Support should be given to the development of endogenous capabilities for the application of new materials - both high-technology ones such as ceramics, plastics, composites, semi-conductor components, and rare and rare-earth (sic) metals, and also more basic ones required for housing, food, water, energy, health care etc.

V. ENVIRONMENT AND DEVELOPMENT

112. Environmental stress has long been seen as a result of pollution and growing demand for scarce resources generated by rising living standards, rapid population growth and the efforts of the poor to survive.

113. Many environmental risks cross national boundaries, and some are global in scope. Although their sources are in a few - mostly industrial - countries, the risks are shared by all, and most countries have little influence over them. Industrialized countries generate about 90 per cent of the world's hazardous waste, and increasing amounts have been disposed of unsafely in developing countries.

114. Many studies have concluded that the increasing concentration of greenhouse gases in the atmosphere will cause average temperatures to rise in coming decades. Further use of chlorofluorocarbons could lead to a significant reduction in stratospheric ozone, accelerating the incidence of skin cancer and other harmful effects of ultraviolet sunlight. The Montreal Protocol on Substances that Deplete the Ozone Layer (Final Act, 1987) calls on the more industrialized signatories to reduce production and consumption of chlorofluorocarbons by 50 per cent by 1999. The Helsinki Declaration (May 1989) calls for a complete phase-out by that date.

115. World wide, millions of hectares lose their biological diversity each year. Two fifths of Africa's non-desert land risks being turned into desert, as does one third of Asia's and one fifth of Latin America's. Political, economic and social factors are more important than low rainfall in the process of desertification. About 15 million hectares of the world's forests disappear each year, mostly in humid parts of Africa, Asia and Latin America. At that rate, about 40 per cent of the remaining forest cover in the developing countries will be lost by the year 2000. Deforestation is destroying forest-based livelihoods, increasing soil erosion and downstream flooding, and accelerating the loss of species and genetic resources.

116. All countries have water-resource problems. Supply constraints are increasing, aggravated by droughts and the depletion of aquifers and deforestation, while demand for water is rising rapidly for irrigation, urban development, and industrial and energy production. Surface water and ground water in many areas are contaminated by nitrates and pesticides, urban run-off, and seepage from waste-disposal sites. Water-resource management has a major international dimension, as there are some 200 internationally shared river basins and a large number of regional seas. Although the humid regions have an overall abundance of water, the variability of its distribution combined with population pressures and expanding economic activities give the "tropical boiler" of the world's weather system a potential for severe world climate modification.

117. Case studies of Haiti, El Salvador, Costa Rica, and Brazil by the World Bank show that excessive resource use and concentrated land ownership are important causes of environmental degradation. On the other hand, research using remote sensing in Nigeria and Indonesia found no conclusive evidence of the poverty/environment links found in other studies. The poor in those two countries appear to have turned more to the informal sector for income and employment, rather than degrading lands close to their village.

118. All too frequently, the costs of environmental degradation are inadequately accounted for when formulating development strategies, policies, programmes and projects. The World Bank notes that channelling development activities into sustainable patterns requires appropriate economic incentives. Many existing fiscal incentives intended to encourage economic development create strong inducements to destroy the productivity of land. The economic analysis of afforestation projects should include ecological benefits along with commercial ones. Governments also can influence choices among energy technologies by appropriate pricing policies.

119. Many countries lack the technology and funds for energy-saving investments. But the greenhouse effect makes such investments an international concern. There must be agreement not only on standards for reducing emissions of greenhouse gases but also for apportioning the costs.

120. UNESCO's programmes to provide a scientific basis for the rational management of land, resources and water have been reoriented towards environmentally sound and sustainable development. Providing decision makers with information and policy options has become a challenge to the scientific community. Environmental education is now considered a key to bringing about changes in attitudes.

121. WFP finds that labour-intensive environmental protection projects can be carried out by seasonally unemployed and underemployed workers. Food aid can facilitate investment in such projects by segmenting and phasing the high initial labour costs at the household, community or national/regional levels.

VI. SOCIAL AND POLITICAL ASPECTS OF DEVELOPMENT

A. Human rights

122. Events over the past few years have demonstrated the mutual interdependence of economic and social development and respect for human rights. However, the ACC Task Force on Long-term Development Objectives has noted that the relationship between development and human rights is complex and not satisfactorily understood, and that there is also concern whether human rights might become a new area of conditionality for development assistance. The Declaration on the Right to Development, adopted by the General Assembly in 1986, describes development as a process that aims at the constant improvement of the well-being of all individuals on the basis of their active, free and meaningful participation and the fair distribution of benefits. The Declaration recognizes a right to development as well as to civil, political, economic, social and cultural rights.

123. Research by UNCHR is under way on the issue of extreme poverty and exclusion from society and the full enjoyment of human rights, and on the effects on the full enjoyment of human rights of economic adjustment policies.

124. The ILO notes that labour mobility and working conditions should be subject to principles of human rights and the protection of minimum labour standards. The ILO has endeavoured to preserve and extend workers' freedom of association and equality of opportunity and treatment, and to suppress forced labour. Labour standards for occupational safety and health and protection against excessively low wages should not be evaluated from a narrow economic standpoint which ignores their contribution to social justice and equity. While legislative and other interventions in labour markets may create distortions, they are introduced in order to correct fundamental weaknesses in the operation of unregulated labour markets.

B. Participation, decentralization and democratization

125. In many parts of the world, popular pressure has forced changes in economic and political institutions found to have been inadequate. Restructuring of national economies involves the decentralization of decision-making and economic planning, the democratization of political life, and effective popular participation in socio-economic institutions.

126. UNRISD case-studies suggest that development based on grass-roots participation gives full play to individual and group initiatives and promotes a relatively egalitarian distribution of incomes and access to common services and facilities. Despite their potential, however, the success rate of participatory development initiatives is low. The participatory approach is sometimes mistakenly equated with subversive or revolutionary doctrine, and many participatory initiatives therefore have to contend with attempts at suppression.

127. Local-level participation in conservation and resource management is crucial for sustainable development. UNRISD notes that popular initiatives have opposed the over-exploitation of natural resources by outside interests. UNRISD is investigating the factors that give rise to such movements and explain their success.

128. ESCWA has found that governmental policies on participatory development need greater precision. Popular democratic participation was found to be important for the success of agricultural co-operatives in rural development.

129. The needs of indigenous peoples and the need to respect their traditional rights have for some years guided World Bank policies on mitigating the effects of development on wildlands and tribal peoples. Recognition and protection of native land rights is needed for successful implementation of joint projects between conservationists and indigenous peoples.

130. There is still little real understanding of the origins, processes, impact or means of resolution of ethnic conflicts. UNRISD will study the relationship between such conflicts and the development process, the nature of external interests and the internationalization of the conflicts, and procedures that might resolve them in different circumstances.

C. Crime and illegal drugs

131. New techniques for non-violent but illegal acquisition and use of drugs significantly affect many countries. UNRISD research on illicit drugs has noted aggressive production and market expansion efforts on the part of drug traffickers, a probable increase in heroin consumption as a companion drug to crack cocaine, and a rise in illicit drug consumption in developing countries, especially in those producing drugs. The illicit international drug trade employs hundreds of thousands of people and is worth billions of dollars annually.

132. The cultivation of narcotic plants has grown. While strong law enforcement and advanced technology may enable Governments to destroy illicit crops, cultivation and trafficking are the sources of livelihood for many people and of large fortunes for the people who organize and finance the activities. Providing alternative adequate sources of income to cultivators is difficult. Anti-drug policies have attempted to substitute other crops for the opium poppy and cocoa leaf, cut off chemicals for processing the plants into drugs, interdict traffic, punish producers, traffickers, dealers and abusers, and educate the public against drug abuse. But these efforts have not been very successful. It has been argued that if the production, marketing and consumption of drugs were legalized and regulated, the profits earned by criminal elements would fall and Governments would be able to save resources spent on fighting crime and collect revenue from taxes on drug consumption. High taxation, however, would encourage criminal elements to continue in illegal trafficking, and the dangers of abuse and addiction have been considered so serious by most Governments that they are unwilling to contemplate legalizing drug use.

VII. SUMMARY AND CONCLUSIONS

133. The research findings of the United Nations system on global economic and social trends continue to generate a comprehensive view of the world intended to be of use in shaping the agenda for international action in virtually all economic and social areas. Much information and data are, however, missing, out of date, or otherwise inadequate.

134. The broadest conclusion to which the findings point is that of growing interdependence - indeed, globalization - in the world system. This has long been an important theme in the studies of the world economy, and it has been powerfully underlined by the trends of recent decades. Recent changes in the economic and political systems of several countries, especially in Eastern Europe, suggest that such interdependence will increase further in the 1990s, and that it will be accompanied by increased emphasis on participation by all people in the activities and benefits of development, and on other aspects of human rights. Environmental issues have vast implications for international co-operation which derive from the physical unity of the planet.

135. The research of the international organizations thus has a strong policy orientation. It seeks to inform the world community about the nature and magnitude of the problems ahead, document experience, and propose national and co-operative approaches.

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GENERAL DISCUSSION OF INTERNATIONAL ECONOMIC AND SOCIAL POLICY, INCLUDING REGIONAL AND SECTORAL DEVELOPMENTS

National entrepreneurs in economic development

Report of the Secretary-General

Summary

The report analyses the role played by entrepreneurship in the economic development of developing countries. It is composed of nine sections, each devoted to a different aspect of promoting indigenous entrepreneurship.

The paper begins with a description of the enterprise culture and the components that seem to encourage entrepreneurship in some societies. Attention is paid to education and training aimed at improving entrepreneurial skills. The question of sources of entrepreneurs and of ways to attract special groups, particularly women and youth, is discussed.

The body of the report is focused on the national policy environment and on policies encouraging, as well as inhibiting, entrepreneurship in developing countries. In this regard, successful examples and policies are cited, and suggestions are made for reducing the impediments to creating successful indigenous

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enterprises. From an international perspective, the role of various forms of co-operation between national and foreign enterprises is highlighted. Also described are effective approaches that international organizations have employed to encourage the process of promoting entrepreneurship in developing countries. The role of bilateral donors and the contribution of the United Nations system is stressed.

In conclusion, the paper sums up the impact of the international economic policy environment on the development of indigenous entrepreneurship and the prospects for developing countries in that connection.

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I. INTRODUCTION

1. National entrepreneurship has been found to play an important role in promoting economic development, creation of employment and technological advancement in both developed and developing countries. While the precise economic, social and psychological factors that motivate entrepreneurship are not well established, it is generally accepted that in addition to societal norms that foster entrepreneurship, government policies that support the successful realization of entrepreneurial ventures have a major positive impact on the supply of entrepreneurs and the growth of national enterprise. National macroeconomic policies and reforms that minimize price distortions and improve domestic and external economic balance help to create an economic environment conducive to the development of enterprise. Further, government policies targeting the development of entrepreneurs, improved access to and availability of finance, the development of a balanced system of commercial and financial regulations, and the optimum sequencing of policies are crucial to the development of national enterprise. In addition, a favourable international economic environment, in particular, accessible markets for developing country exports, is necessary for enterprise development.

2. In recognition of the economic, social and policy issues in the contribution of national enterprise to economic development, the Economic and Social Council, in its resolution 1988/74 of 29 July 1988, while reaffirming General Assembly resolution 41/182 of 8 December 1986 on indigenous entrepreneurs in economic development, recognizing the work of the United Nations system in that field and taking note of the report of the Secretary-General on the topic (A/43/360-E/1988/63), requested the Secretary-General to undertake a study on measures to promote the contribution of national entrepreneurs to the economic development of developing countries, taking into account the need for a positive international economic environment and to prepare a report for submission to the Assembly at its forty-fifth session, through the Council. The present report is in response to that request.

II. ENTREPRENEURSHIP AND ENTERPRISE CULTURE

3. It is a fundamental question why some societies develop a much higher level of entrepreneurship than do others. Economies with a high level of entrepreneurship have grown at a much faster rate. The Asian island economies of Singapore and the Territory of Hong Kong are examples of highly entrepreneurial societies. The inhabitants of other Asian countries - the Republic of Korea, Thailand and some states of India - show great entrepreneurial energy and dynamism.

4. However, many of the lesser developed countries have a relatively low overall level of entrepreneurship. The most energetic and talented among the indigenous people do not seek to become entrepreneurs. Instead, they prefer the security of government employment or jobs in foreign-owned corporations or careers in politics. Yet others who could provide sources of entrepreneurship migrate, seeking employment overseas.

5. The abundance of entrepreneurship in some countries and the lack of it in others have claimed the attention of many researchers. The research conducted indicates that the explanation is complex. Certainly, the existence of a conducive or enabling environment in which the Government and society foster positive attitudes to entrepreneurship and government policies that support and strengthen that trend are major factors. In such communities, entrepreneurs are accorded respect and status and face far fewer impediments to starting and operating businesses. There is, in fact, what has of late been referred to as an "enterprise culture", where the majority of the better qualified, more ambitious and abler youth look to business and industry for the fulfillment of their career ambitions. An enterprise culture, while not universally accepted as an ideal model for all societies (sometimes it is not balanced by social programmes that cater to the less successful and poorer elements of society), has been defined as a set of values, attitudes and beliefs in the community that supports independent entrepreneurial behaviour in a business context.

6. The main components that promote the existence of an enterprise culture within a community are (a) abundant positive role images of successful independent businesses, (b) an opportunity to practice entrepreneurial attributes, which is reinforced by cultural factors during the formative years, (c) the provision, formally and/or informally, of knowledge and insight into the process of independent business management, (d) a network of independent business or family contacts and acquaintances that reinforce familiarity and provide market entry opportunities, and (e) ample opportunity, especially among youth, for familiarization with small business tasks.

7. The enterprise culture and the flowering of entrepreneurship are usually associated with a political framework that is sympathetic to the growth of small independent businesses, although it may exist even where the broad political environment is not encouraging. In such circumstances, entrepreneurship develops into a thriving informal or underground sector in defiance of government regulations and restrictions. A large number of developing countries provide evidence of such developments.

III. EDUCATION AND DEVELOPMENT OF ENTREPRENEURSHIP

8. The discussion as to whether an entrepreneur is born with the required attributes or can be trained to become one is longstanding. Even those who accept that not everyone has the inherent personality characteristics to become an entrepreneur - and they are probably the majority today - would agree that individuals can be influenced to assume an entrepreneurial role through education and training. There is no doubt that in some developing countries the prevailing educational system not only does not enhance the concept of an enterprise culture but even works strongly against it. Few educational systems go beyond the acquisition of knowledge by students to an attempt to infuse the importance of innovation, creativity and the ability to respond to different situations and to confront challenges or undertake risks, all of which would help strengthen the entrepreneurial attributes in the younger members of the society. Many developing countries realize that more needs to be done to move the education sector from a

pursuit of purely academic objectives to educating students towards entrepreneurial activities.

9. Developing countries need to adapt the content and methods of their educational system to reinforce the traits of entrepreneurship within youth. Educational changes could make an important contribution to enhancing the status of the entrepreneur model and to stimulating more young people to embark on independent business careers.

10. Some believe that entrepreneurial traits are acquired at birth, similar to artistic or musical abilities. Others hold out that everyone can become a successful entrepreneur if given appropriate education and training. Some academic circles still believe that a direct positive correlation exists between educational accomplishments and success in business and entrepreneurship. However, most evidence from research does not bear that out.

11. Studies of entrepreneurship have listed more than 20 or even over 30 different traits that characterize successful entrepreneurs. Most recognize that not all successful entrepreneurs have all or even most of those traits. The following are among the more significant traits that characterize successful entrepreneurs: a strong urge for independence, self-reliance and high self-confidence, propensity for moderate risk taking, initiative, problem solving ability, perseverance and readiness for hard work, flexibility, and innovative and creative thinking.

12. Of course, some attributes are more evident and of greater significance in starting a business than in the daily running of an enterprise. When businesses are in operation, the entrepreneur becomes an owner-manager, and successful performance may depend on management skills rather than entrepreneurial behaviour. Many persons who have strong entrepreneurial traits may be poor managers, since management requires skills such as a proper handling of people and the direction and co-ordination of activities.

13. Efforts have been made to select persons with entrepreneurial personalities and to strengthen their abilities through training, which can increase the number of successful entrepreneurs. In that context, one distinguishes between achievement motivation training and entrepreneurship development programmes; the latter include not only achievement motivation training but also management training, the improvement of marketing skills and assistance in preparing business plans. The training element of such a programme could be part of wider small business promotion programmes, which would include credit schemes, extension or advisory services, industrial estates and other direct support activities to assist new and existing enterprises.

14. Behavioural scientists started with achievement motivation training in the early 1960s but, though successful in that the business performance of those who passed through the training was superior to that of others who had not, they did not actually succeed in creating new entrepreneurs. Rather, they made better entrepreneurs of those already in business.

15. However, when the efforts of behavioural scientists were taken up in Gujarat, India, the concept of achievement motivation training was expanded and became the first stage of an entrepreneurship development programme that became part of a small business promotion programme, which resulted in the actual establishment of new small enterprises by those who had been screened and trained. That highly successful programme for creating indigenous entrepreneurship followed (a) selection of potential entrepreneurs, (b) achievement motivation training, (c) production selection and preparation of a business plan, (d) business management training, (e) practical training and work experience and (f) post-training support in obtaining factory sheds, financial assistance, raw materials and technical advice. The Gujarat entrepreneurship development programme was followed with similar programmes throughout India and has become a model for many entrepreneurship development programmes in other developing countries.

16. A study published in the early 1980s identified over 100 such programmes throughout the world. Of these, 53 supplied information on their results. On average, those that responded indicated that they had selected around 50 per cent of those who applied for participation in the programme, and 66 per cent stated that they preferred applicants who had a specific business idea. Most of the 53 programmes (62 per cent) did not impose any minimum standard of education beyond literacy; 69 per cent did not use psychological tests of any sort when selecting applicants, while 77 per cent used evidence of some previous entrepreneurial initiative as a major qualification for entry into the training. Most programmes claimed that they followed up their trainees but only two thirds of the programme directors were able to state how many of the trainees had actually started businesses. Of those who did provide information, it was claimed that an average of 39 per cent actually started businesses at the end of the programme. Over two thirds of the programmes reported that they had facilitated access to credit for their trainees.

17. This and similar studies indicate clearly that the best results were achieved by entrepreneurship development programmes when the programme was integrated with management training and linked to a business support programme that helped the graduates to obtain financing and technical, managerial and marketing advice. Most programmes today are run for participants from urban areas or semi-urban areas where the potential for small enterprise development is significant. Clearly, the availability of infrastructure or communications or other support facilities is needed to make a programme effective.

IV. SOURCES OF ENTREPRENEURS AND TARGET GROUPS FOR DEVELOPMENT OF ENTREPRENEURSHIP

18. In some countries, it is believed that the indigenous entrepreneurs are most likely to come from university graduates or from educated people. Indeed, some graduates do start enterprises that produce items with a technological content or go into fields such as pharmaceuticals, food processing, electronics or chemical products. In a few cases, graduates seek to take over and expand small family business, but generally, in developing countries, university graduates are not a great source of small-scale business. Some even argue that persons with academic

qualifications are less suited to the requirements of entrepreneurship where initiative, problem solving ability and a propensity for risk taking are more important than academic knowledge and facts. However, in India and in some Latin American countries where unemployment among university graduates has developed into an acute problem, special programmes have been launched to train such graduates in entrepreneurship and business management. Special financing schemes and other forms of direct assistance, such as the establishment of premises and the provision of marketing assistance, have been offered to help graduates to start their own businesses. Under pressure of lack of alternatives, some graduates have adapted themselves to becoming independent businessmen.

19. As in the case of university graduates, lack of employment opportunities is a major, if negative, factor in stimulating entrepreneurship. This is particularly so in developed countries. In developing countries, such unemployed persons engage in informal business activities. The main sources of indigenous entrepreneurs in those countries are skilled and semi-skilled workers, artisans and cottage industry employees, traders, and government and public employees.

20. Skilled and semi-skilled workers who have worked for large, often state-owned and foreign-owned enterprises and either have been made redundant and jobless or have a strong urge to be independent workers are an important source of entrepreneurs. While those workers are a major source of entrepreneurs in developed countries, they are a much smaller reservoir of entrepreneurs in developing countries.

21. Artisans and cottage industries, which exist in large numbers in most developing countries, are another source of entrepreneurs. Some new entrepreneurs are persons and even whole communities engaged in traditional crafts based on skills passed over generations, while others' only source of livelihood is their work in the utilitarian artisanal activities (tinsmiths, cobblers, seamstresses etc.) from the informal sector. In some developing countries, the traditional artisanal sector is of considerable economic importance (Philippines, Indonesia, Ecuador, Nepal etc.) and make significant contributions both to employment and to exports. In other countries, the informal sector with its many semi-skilled artisans is the more significant in terms of employment and output (Peru, Colombia, Kenya etc.).

22. In some respects, artisans and cottage industries are already engaged in some rudimentary form of entrepreneurship and can therefore be stimulated and assisted to become formal small-scale entrepreneurs. There are many programmes for all those artisanal units (or micro-enterprises as they are now often called) to increase the volume and raise the quality of their output and to enhance their incomes and employment. The results of all of the promotional programmes have often been disappointing from the perspective of transforming those artisanal or informal units into formal small enterprises. The assistance projects have raised incomes generally, but few have managed to graduate those units or individuals into the formal business sector. Some from this sector become trainees in entrepreneurial development programmes and start formal businesses, but most are reluctant or feel unable to overcome the regulatory and other hurdles involved. Others are able to practise their technical skills but lack t[illegible] entrepreneurial

traits and management skills to become successful businessmen. Nevertheless, it must be recognized that this is a significant element of potential indigenous entrepreneurship. It is worth while to seek ways of encouraging and supporting these people to expand into real entrepreneurs wherever possible.

23. Like artisans and cottage industries, traders constitute a group that has already embarked on the entrepreneurial road. Generally, commerce, whether at the level of street hawkers, kiosks or small stores or trading posts, represents the first steps for those who, either out of choice or necessity, make their livelihood, however meagre, from their own business efforts. Successful traders, even though usually lacking in technical skills, are an important human source for upgrading into small-scale industrialists where their contribution to the economy - in terms of value added - is much more significant. However, all entrepreneurship development programmes or small business promotion programmes inevitably result in some graduates of the programme going into commerce, even though this may not be considered the main objective.

24. Government and public employees have always been a major source of indigenous entrepreneurship in developing countries. Many employed in public service are also engaged in family businesses or become involved in part-time business activities either in preparation for leaving public service or before retirement, or simply to supplement very low government salaries. Lately, the introduction of structural adjustment programmes in various developing countries has displaced a large number of civil servants and public employees. Thus the government civil service and public enterprises should be regarded, as of necessity, a major source of potential entrepreneurs. The same can apply to military personnel. Whether all have the attributes to become successful entrepreneurs is questionable, although some among them certainly do. Public service is usually not the best background for operating small-scale enterprises, which requires risk taking, initiative, perseverance, quick decision making and innovation, all of which are generally lacking in the experience of those working for the Government in most developing countries. Still, it is evident that government service and public enterprises cannot in the future provide employment on the scale as in the past, and therefore it is urgent to develop programmes to imbue entrepreneurship in displaced government employees and to train them in business skills so that the more able among them can become successful small-scale businessmen.

25. Public service employees bring one important asset if they choose to become private entrepreneurs. They often have important political and government contacts and know better how the administrative and regulatory framework functions. They can use shortcuts to obtain the bureaucratic approvals where such are needed to start a business. Of course, this situation has its negative aspects, since such contacts can be the elements of questionable ethical practices and can result in enterprises flourishing and making profits not through improved performance and competitive advantages based on efficiency, but rather out of the favourable or preferential treatment from some government officials. Despite these problems, efforts must be made to find ways to encourage suitably talented persons in government service to become entrepreneurs in the private sector.

26. The groups discussed above may be the main sources of indigenous entrepreneurship but they are by no means the only ones. Displaced farmers or under-employed rural smallholders may be encouraged and assisted to start agro-processing or food industry enterprises. Special groups, such as women, youth and refugees and specific ethnic groups, are often targeted for entrepreneurship development programmes.

27. In most developing countries, there are now special programmes for helping women to start businesses or to become entrepreneurs. In many of those countries, women face major legal, social and political obstacles in participating in enterprise development, and they usually have even greater difficulties than men in obtaining finance. Special credit programmes are now available to women entrepreneurs to help them obtain not only credit, but also training in management and business. Women are now very active in micro-enterprises, the informal sector and artisanal development but they tend to participate less in formal small-scale enterprise development. Among major efforts to assist women to start and operate micro-enterprises, one may mention the successful programme of the Self-Employed Women's Association in Ahmedabad, India, which has organized and helped 35,000 women to become independent and self-employed in a whole range of occupations, and the famous Grameen Bank in Bangladesh, which, by July 1989, had given over 500,000 small loans to women for a total of close to $150 million (over 87 per cent of Grameen's clients are women).

28. Some strongly support special entrepreneurial development programmes for women, arguing that in most developing countries women are disadvantaged and even discriminated against in those programmes that include both men and women. Others believe that women should be catered to in programmes for both men and women so as to become accustomed to the real life situation where they will have to co-operate and compete with men in business. These people suggest that more should be done to ensure adequate representation of women in entrepreneurship development programmes in general and as beneficiaries in business support programmes. Whichever approach is adopted, women represent an important source of entrepreneurship and entrepreneurship development programmes and business promotion programmes should take account of this.

29. In several developing countries, special programmes are initiated to target youth as a source of entrepreneurship. This is intended to counter the problem of youth unemployment and the inadequate employment opportunities for youth finishing their schooling or vocational training.

30. Some African countries, such as the United Republic of Tanzania, Kenya, Uganda, and Malawi, and Asian countries, including Sri Lanka, Bangladesh and Indonesia among others, have also developed specific programmes for school leavers and unemployed youth, and have given them training in vocational skills as a basis for self-employment. Most of these programmes claim that around 50 per cent do become successful entrepreneurs, either as self-employed or possibly as businessmen employing one other person. In African countries the proportion is lower, probably more in the range of 20 to 25 per cent. Targeting youth in this manner raises the question whether, despite the clear need to create alternatives for youth to employment, these persons have the maturity or the self-confidence to develop as

successful entrepreneurs. Yet, if one sees the first rung of the ladder of entrepreneurship as basically self-employment, then young people with suitable attributes, given training in vocational and business skills and some advice and assistance, can be developed, for example, as independent carpenters, mechanics, painters or tailors. Those with the entrepreneurial drive and sufficient initiative may in the course of time go on to create proper small enterprises. However, the failure rate is bound to be relatively high.

31. Entrepreneurship or business development is often seen as a political solution that can help in dealing with problems of refugees or disadvantaged ethnic or tribal groups and minorities. The problem of ethnic minorities works both ways. Some minority groups, primarily expatriate immigrant groups, have been very active in business life in their countries of adoption. The entrepreneurship displayed by those groups is typical of the drive for betterment of their lives and those of their families through establishing successful and independent businesses, which are characteristic of those started by many immigrants in both developed and developing countries. There are situations where ethnic groups, minorities or refugee groups, and also in a number of cases majorities, appear to lack entrepreneurship qualities and are economically disadvantaged in relation to other groups. It is politically expedient in such situations to launch special schemes to provide incentives and subsidies and have some entrepreneurship development programmes or promotion schemes available exclusively to those groups. Even though all such programmes for special groups, including those for women, are controversial, there is a strong case for making specific resources available to those who by background, historical circumstances and possibly prejudice have not had equal access to business opportunities.

V. NATIONAL POLICY ENVIRONMENT AND ENTREPRENEURSHIP

32. Entrepreneurship cannot be expected to flourish within an environment where government policies and legal and cultural factors inhibit the development of successful enterprises. To the individual potential entrepreneur, many factors may undermine his or her ability to start a business or cause a business to fail after it has been started. Among them are macroeconomic factors, inadequate capital, taxation, regulation, poor infrastructure, and labour and environmental legislation. Sound macroeconomic policies are also a necessary condition for enterprise development. They include, for example, fiscal restraint, market-based interest rates and flexible exchange rates and prices.

33. Where there is a lack of fiscal and monetary restraint, the private sector may be crowded out and suffer the consequences of an inflationary environment. If exchange rates become overvalued with rising inflation, there is the danger of undermining the competitiveness of domestic producers in both national and international markets. If large-scale credit is subsidized or prices of labour-intensive goods are kept artificially low, there is a disincentive for the growth of smaller, labour-intensive enterprises. Similarly, in the financial sector, artificially low interest rates tend to suppress the holding of financial assets, reducing the availability of domestic financial resources for investment.

34. Inadequate capital and lack of access to credit or investment finance remain one of the most important factors inhibiting entrepreneurship. Although it is recognized that most very small-scale businesses are started on finance accumulated from personal or family savings or through private loans, there are many cases where such resources are just not available or are inadequate, even though the individual has a good viable project and all the potential of becoming a successful entrepreneur. Even when an entrepreneur launches his business without recourse to outside finance, such financing will probably become necessary as the business expands, the more so if the business is successful and grows.

35. The whole question of how to ensure adequate finance for small enterprises is a very complex issue. In nearly all developing countries, the commercial banks are reluctant to lend to new first time entrepreneurs (or indeed to any small enterprise) as the risk appears too great, the borrowers have inadequate collateral and the administrative and transaction costs of lending are high. Governments recognizing this problem have tried to make finance available to small-scale enterprises through a variety of approaches. Specialized financial institutions have been created to cater only for loans to small- and medium-sized enterprises, for example, the Small and Medium Industries Bank and the Citizen National Bank in the Republic of Korea, Corporación Nacionál Financiera in Colombia, the Industrial Development Fund (INDEFUND) of Malawi and the Small Enterprise Development of Malawi (SEDOM) and the Halk Bank in Turkey, just to name a few such institutions. Furthermore, Governments have provided special credit lines through development banks or commercial banks available only for small enterprises. Moreover, refinance or credit guarantee schemes have been developed to encourage commercial banks and other financial institutions to lend to this sector. Finally, legislation has been introduced that mandates all commercial banks to lend a specified percentage of their loan portfolios to the small enterprise sector.

36. In addition to the approaches to ensuring adequate finance in the small enterprise sector, some well intentioned government measures, such as subsidizing small business lending to provide credits at lower than commercial interest rates, have unfortunately often backfired because such lending tends to end up with privileged and well connected borrowers and thus encourages use of the finance for uneconomic projects. Special incentives to development and commercial banks to lend more to this sector, but at full commercial or positively real interest rates, are more beneficial to the development of healthy entrepreneurship in the long run.

37. Finance remains a key problem for small enterprise in all countries. Those who believe that liberalizing the economy and the financial sector will resolve this problem have failed to take account of the imperfections of financial markets and the issue of high transaction costs and perceived risk in lending to this sector. Transaction costs can be lowered by having support agencies identify and screen potential borrowers and help them prepare loan applications in a form acceptable to the banks. Also, various schemes of linking informal with formal lenders can reduce the transaction costs of lending to small borrowers.

38. In many countries, taxation and fiscal policies prevent entrepreneurs from accumulating the capital they need to develop their businesses. The result is either tax avoidance or the encouragement of an underground or informal economy in

which entrepreneurship remains stunted and unable or unwilling to expand into the formal business community. Small-scale entrepreneurs must recognize an obligation to pay taxes but the tax régime must also be reasonable and of a nature to permit the needed accumulation of capital by entrepreneurs and to allow sufficient returns to encourage investment in productive enterprises. Tax régimes should be administered in a manner so as not to make compliance too onerous or bureaucratic nor make small business the subject of excessive harassment that could deter enterprise growth.

39. This applies not only to income and business taxation but also to indirect taxation as well. Imposing levies on imported capital goods and equipment, spare parts and intermediate goods, or semi-finished components, can also raise production and investment costs to the point of making projects unfeasible or non-competitive. The same may also apply to payroll taxes that discourage employment, and sales taxes or similar taxes that reduce demand for products or levies on business property, energy inputs and communications, all of which can prove counterproductive in stimulating entrepreneurship. Of course, Governments have to introduce taxes to raise needed revenue, but this must be done in a fashion so as not to deter entrepreneurial and business development nor, as in several developing countries, to encourage the growth of a large non-tax paying "informal" sector.

40. Regulations in some countries can make it a daunting proposition to meet all the regulatory requirements to start and operate a new business. In many countries the legalities necessary to register a new business are complex and time-consuming, which is one of the explanations for the large informal sector in developing countries. Conforming with regulations involves an inordinate investment in time, effort, and in some cases money, which small-scale entrepreneurs can ill afford.

41. Countries wishing to encourage entrepreneurship would be well advised to ease the entry of new entrepreneurs into business through the reduction of regulatory restrictions and requirements on starting, registering and operating businesses and through the simplification of regulations so that compliance is made easier and less time consuming and costly. The levies, duties and other payments required to obtain a permit to start a business need also to be kept to a minimum so as not to constitute a financial burden on startup enterprises.

42. Inadequate investment in infrastructure, such as roads, transport, water, telecommunications and energy of developing countries, has an adverse effect on the development of local entrepreneurs. The poor infrastructure makes it impossible for some enterprises to develop and raises the costs for those engaged in productive activities because of the higher cost of inputs.

43. It is the Government's role to ensure adequate infrastructure for the economy and the business community. Apart from providing the basic communication and service facilities that enterprises need in order to operate efficiently, some Governments seek to encourage enterprise development through the establishment of special industrial estates and business incubators, making sites and factory premises with all needed services available on moderate terms. Estates in some countries have proved costly and ineffective, but in others which have an abundance

of entrepreneurs (Turkey, Cyprus and India), they have proved a valuable source of help to new enterprises and expanding small industries. The provision of industrial estates without other measures such as training, credit facilities, advice and information will not of itself make a major contribution to stimulating entrepreneurship.

44. Labour legislation and environmental protection are also areas where an appropriate balance needs to be struck between the protection of workers and the environment and the burden imposed on enterprises. While legislation and regulations in these areas are highly desirable, they should not inhibit the development of entrepreneurship or lead entrepreneurs to operate illegally in the informal sector.

VI. POLICIES TO ENCOURAGE ENTREPRENEURSHIP

45. Policies and measures implemented on a broader scale and aimed at creating a more open environment and the removal of restrictions that could impede the emergence of new enterprises are the most important measures to encourage entrepreneurship. More specifically, government policies should aim to reduce the strangleholds of monopolies and oligopolies on the domestic economy and encourage more competition between producers. This in turn would lead to the emergence of new enterprises and more entrepreneurs. The Government could also ease the "start-up" of new businesses through easing regulatory controls on the establishment of new enterprises and on the operation of existing ones.

46. Other important types of steps to encourage entrepreneurship are positive measures to help those who follow the entrepreneurial road by (a) easing access to credit both through a general liberalization of the financial system and the introduction of special schemes to channel finance to the small enterprise sector, (b) initiating special training programmes to identify and assist potential entrepreneurs to acquire management skills and upgrade technical knowledge, (c) creating special facilities for new and expanding enterprises through industrial estates, technical service centres and marketing organizations, and (d) facilitating access to government procurement and helping in the development of information and advisory services to provide aid to fledgling entrepreneurs to overcome their production, marketing and management problems.

47. In creating special facilities for new and expanding enterprises, most Governments aim to provide help through public institutions and agencies. Government help with external donor support is usually indispensable, but because of the many problems experienced with government institutions such as staffing, management, bureaucracy, political interference etc., many developing countries have experimented with the use of non-governmental organizations or business associations. One should not ignore the possibilities of enlisting the help of universities and higher educational institutions (especially in training and the provision of technical advice) and larger, more established enterprises.

48. A few Governments have tried to help small industries through regulations reserving the production of certain items to manufacture only by small firms.

However, it has been gradually recognized that this creates economic distortions and can be damaging to industrial development as a whole by adversely affecting production standards and the technological advancement that the country needs to compete effectively in the export markets.

49. Governments intent on encouraging local entrepreneurship have to create suitable channels for promoting small business and for delivering the various forms of assistance needed for the development of successful indigenous entrepreneurs. Most Governments set up public agencies or direct government support institutions for that purpose. In some cases, it takes the form of integrated comprehensive institutions that offer all forms of support in finance, training, advice and help in identifying business opportunities. Other forms of direct aid are the setting up of factory sheds on industrial estates and assistance in obtaining orders from the public sector or in fields such as technical information, design and export. In other cases, the different forms of support such as finance training, advice etc. are given by separate institutions. In some cases help is decentralized to regional (especially in larger countries) or to sectoral institutions (metal, wood, textile, shoes etc.).

50. Over the years, the experience with larger centralized small enterprise support institutions has been disappointing. The institutions, with a few exceptions, were not well managed and were staffed with inadequately qualified persons. They developed unwieldy bureaucratic structures, expanding to a range of activities for which they had neither the competence nor the resources. Supported as all these institutions were from government or external donor funds through government channels, they suffered from budget shortages and political interference. Smaller institutions that are based regionally, more focused in their activities or designed to cater to specific sectors, generally fared better.

51. Despite the problems that have arisen in those small enterprise support institutions, some form of institutional support for small enterprise development is necessary. If non-governmental organizations such as small business associations are able to undertake many of the services, such as training and advisory services, and can operate, as in some cases, information centres or credit guarantee schemes, the Government can confine its support to financing the assistance.

52. In most developing countries those private sector organizations are not strong enough to undertake this role or can do so only to a limited extent, and it remains for the Government to set up and support public institutions to carry out those tasks. However, it would be advisable to encourage, as far as possible, the gradual takeover of some services by local business organizations and to support the break-up of larger, national public institutions into smaller, more focused organizations with a more limited range of activities, co-operating with each other and co-ordinated by a central council.

53. The major functions of small enterprise support institutions include identifying opportunities for small-scale projects, screening potential entrepreneurs, advising and assisting in business start-up, helping existing firms

to improve performance, organizing training courses and helping small businesses with innovation and the introduction of new technologies.

54. The provision of credit or direct financial assistance is generally not a major function of those institutions. Although some support institutions do operate direct credit programmes, that is generally considered the task of development, commercial or financial institutions. The institutions could help businesses to prepare suitable bankable loan applications for obtaining the financial assistance. Unfortunately, however, in many cases they are not in a position to manage financial assistance programmes effectively. Finance, as already stated, remains an essential element of support and a way has to be found for the financial institutions to become involved.

55. All support institutions, if they are to succeed in helping develop entrepreneurship and promote small business, must gain and maintain credibility in the eyes of their prospective clients, that is, entrepreneurs and small businesses, in the local community at large, the financial institutions, and the different government bodies. They must offer an appropriate service that satisfies demand and avoids overlapping with services that other institutions provide better, but at the same time they must be ready to refer clients for help to individuals or institutions that are better placed to provide the help needed. Entrepreneurship development programmes are often offered by this type of small enterprise support institution, but they are also offered no less successfully in some cases by universities, business schools and colleges, special institutes, banks and financial institutions and by associations and chambers of commerce.

56. The privatization of public enterprises is viewed as another means of promoting entrepreneurship, as privatized enterprises are released from the influence of governmental decision-making, thus giving primacy to economic criteria and reducing political and social constraints involved in government control. Political considerations have been a major problem in privatization, since disengaging the State from the social and economic structures is a complex task, partly because there is often a clash between the goals of maximizing short-term gains through revenue from sales and establishing a more efficient economic structure. Moreover, many developing countries face problems in attracting private capital in their privatization efforts.

VII. CO-OPERATION BETWEEN NATIONAL AND FOREIGN ENTREPRENEURS

57. Co-operation between national and foreign enterprises is an effective commercial way of promoting entrepreneurship in developing countries. For a long time it took place mostly as co-operation between multinational corporations and domestic state-owned and large enterprises. More recently, co-operation has also involved foreign and national small- and medium-scale enterprises.

58. The attitude in developing countries towards big business in general, and co-operation with foreign multinational corporations in particular, has changed over the years. In the 1950s and 1960s, when large-scale modern industries were seen as the key to rapid economic development, multinational corporations were made

welcome. By the 1970s that attitude had changed substantially and relations with multinationals were seen as disadvantageous for developing countries. During the 1980s, Governments in developing countries have reverted to valuing, albeit with considerable caution, the economic and technological contributions that multinational corporations could make. Many multinational corporations try to reconcile contributions to local development with their long-term business objectives. As a part of this effort, a number of multinational corporations have begun to show interest in assisting national small- and medium-scale enterprises, especially where they feel these enterprises have relevant skills and resources to offer.

59. During the past decade there has been a significant increase in the number of multinational corporations from the newly industrialized countries - India, Brazil, the Republic of Korea, the Territory of Hong Kong, Taiwan Province of China and Singapore. They have successfully established operations with national enterprises in the less developed countries, initially within the same region and later outside it. Those multinationals offer particular advantages to national entrepreneurs compared with their counterparts from developed countries: lower capital costs, intensive technologies suitable for smaller markets; often a better understanding of the political environment as well as of local market conditions; and lower management costs.

60. There is a great diversity of ways in which multinational corporations are co-operating with national enterprises. One of the major ways is subcontracting. Many multinationals draw on the services of small-scale and medium-scale subcontractors for supplying raw materials, semi-processed goods, components, finished goods and spare parts. This involves a large amount of small- and medium-sized enterprises in the process of collaboration and helps those enterprises to expand and improve their production. Assistance provided by multinational corporations includes development of product design and production techniques, technical training and production supervision.

61. That type of relationship can promote exports and is in many cases a form of technical assistance, as the subcontractor usually works to the specifications of the foreign contractor while maintaining his independence. Sometimes, local firms need to guard against excessively low costs with wage levels forced down through international competition. In many cases, as in some exporting processing zones, little technology transfer takes place and the 20 to 25 per cent of the product subcontracted usually consists of the final assembly operations in which only unskilled labour is required. As employment creation is an important need in most developing countries, even this type of subcontracting of unskilled operations is eagerly sought. Dynamic local entrepreneurship can usually expand the range of work subcontracted and sometimes can graduate from this type of arrangement to independent manufacture. For this reason it is advantageous for a developing country, if possible, to encourage subcontracting to locally owned enterprises rather than the creation of subsidiaries of foreign firms to carry out the operations.

62. Another major area of co-operation is sales. This can take place by utilizing the services of national enterprises to market the products or services of the

multinational corporations and to undertake a variety of after-sales functions, including franchising, licensing, distributing, dealing, retailing and servicing, and also by specially developing and marketing new products.

63. Product franchising was specifically associated with the distribution of brand-name products in North America and Europe. However, by the middle of the twentieth century, a number of large manufacturers, those of soft drinks and automobiles, for example, had found this form to be an efficient method of entering markets of developing nations. Business format franchising is a more recent phenomenon. Although less familiar in developing countries than product franchising, it provides an efficient way of importing marketing and retail know-how while simultaneously creating opportunities for prospective local entrepreneurs.

64. In many cases, the strengthening of the collaboration takes the form of joint ventures. Joint venturing, particularly because of financial limitations, is often the preferable solution for small businesses. Successful joint ventures obviously foster the achievement of major goals by each party. The major goals for foreign firms entering into a manufacturing operation in a developing country with a considerable domestic market might be growing market size, reasonable risk and a satisfactory rate of return in the medium or longer term. National enterprises may have the goal of entering into a profitable manufacturing operation with a foreign firm that can provide essential technology, business know-how, trademarks and access to international markets. Obviously, the Government of the host country, through the joint venture arrangements, aims at attaining several goals, including contributions to industrialization, increases in national income and employment, and an acceleration of the economic development of the country.

65. However, government policies that have a direct negative effect on promoting joint ventures may be observed in a number of developing countries. For example, joint ventures are prohibited in a number of industries and some governments impose restrictions on the share a foreign investor may hold. Also, government restrictions and bureaucratic procedures have a negative impact on the co-operation between small-scale foreign and national enterprises, which now play a significant role in the international enterprise-to-enterprise co-operation. Finally, price and foreign exchange controls, state monopolies in certain industries, subsidies and other forms of government intervention can have a discouraging effect on the co-operation between national and foreign enterprises.

66. Many small-scale and medium-scale enterprises in developing countries are also family-owned businesses. These enterprises tend to be reluctant to co-operate closely with foreign parties, partly because they fear a loss of influence on their firm.

67. Particularly positive examples of promoting co-operation by small- and medium-sized enterprises with foreign partners can be observed in East and South-East Asia. The development of high-tech entrepreneurship attracted foreign enterprises, particularly from Japan. A number of dynamic Japanese high-tech entrepreneurs took advantage of lower labour costs and entered new markets in that area either directly or through a local partner. Since finding the right partner

is often a difficult problem for the entrepreneur to solve, small Japanese high-tech businesses have organized venture business clubs to establish personal direct contacts with entrepreneurs in developing countries. The result was a number of agreements and the establishment of several high-tech networks.

VIII. THE ROLE OF BILATERAL DONORS AND MULTILATERAL ORGANIZATIONS IN DEVELOPMENT OF ENTREPRENEURSHIP

68. Beside benefitting from co-operation among themselves, entrepreneurs can also be assisted in their development by bilateral donors and multilateral organizations. The objective of such assistance has been to stimulate the private sector in developing countries and create a counterbalance to large-scale public enterprises. Many organizations feel that small enterprises promote greater employment from a given source of capital than do larger ones and that locally available skills and labour are put to better use.

69. Both bilateral donors and multilateral organizations assist enterprises in developing countries in various ways, which include linking local entrepreneurs to foreign enterprises, marketing assistance and training. Furthermore, donors have assisted through facilitating access to finance and technology.

70. To promote linkages between national and foreign entrepreneurs, the Swedish International Development Authority (SIDA) carried through the Sister Industries Programme in the United Republic of Tanzania, a link-up whereby some smaller Swedish enterprises established a direct "sister" relationship with new local industries that they helped to establish. The local entrepreneur was assisted with financial credits, advice and training both for himself and his workers. The Swedish "sister" firm also sent over managers and technicians for short periods in the installation and "running in" phases and helped to find overseas markets for some products. The whole programme was financed by SIDA with aid funds, which included all the costs of the Swedish firms. This SIDA-supported programme has resulted in 25 new small industries in operation on the industrial estates of Arusha, Moshi and Mbeya in the United Republic of Tanzania. A similar programme has now been started in Zambia. Other bilateral agencies (for example, the Norwegian aid agency NORAD) have started similar programmes in Africa.

71. Further, "twinning" has become a popular form of promoting co-operation. This term usually refers to a direct link between institutions or business associations in developed and developing countries. The German Agency for Technical Co-operation (GTZ) has developed a "twinning" programme between the German craft chambers and fledgling associations of industrialists in developing countries, in which the former offer help with training, advice, information and financial support. They aid the local association in providing service to members who are generally small-scale local entrepreneurs. The German partner or "twin" caters to small enterprises and tailors its help to the needs of enterprises in the recipient countries.

72. "Twinning" has to a limited extent also been fostered between small enterprises engaged in similar activities in developed and developing countries.

The relationship is a loose one without contractual obligations on either side. It is rather based on advice and information exchange or mutual visits as the need arises. Such a relationship can be of great use to a new enterprise engaged in a new field of production.

73. In the United States of America, Appropriate Technology International (ATI), created as a private non-profit corporation in 1976 and funded primarily by the United States Government, aims to work in active co-operation with local business and organizations in Africa, Asia and Latin America to identify, disseminate and transfer technologies, and establish commercially viable enterprises. ATI operates in 21 countries and supports efforts to develop new technologies using local resources or to diffuse and replicate existing ones that can principally benefit the rural poor.

74. Among multilateral organizations, the United Nations system, in particular the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO), has contributed to the promotion of indigenous entrepreneurship in developing countries through research, training and technical co-operation. As the transfer of technology has become one of the key points in promoting entrepreneurship, various United Nations bodies have launched programmes that are related to technology transfer.

75. UNIDO has plant-level co-operation programmes for the transfer of technology to small- and medium-scale enterprises. This programme is to mobilize the private sector in the industrialized countries as a source of technology for "partner enterprises" in the developing countries. The programme is funded by different developed countries and each project in the framework of the programme covers three or four developing countries and concentrates on a specific industrial sector.

76. ILO, which sees its efforts of promotion of small- and medium-sized enterprises as important for entrepreneurship development, conducts a range of activities designed to assist potential entrepreneurs through development of skills in the management field.

77. The International Trade Centre is a United Nations agency that provides technical assistance to developing countries in the field of trade promotion. The assistance extends to the small- and medium-enterprise level. The Centre perceived considerable interest on the part of small and medium-sized enterprises in developing countries in enhancing their export potential through linkages with more technologically advanced companies in the developed countries.

78. The Centre for Science and Technology for Development of the United Nations promotes the implementation of the Vienna Programme of Action on Science and Technology for Development through fostering the endogenous scientific and technological capacities of enterprises in developing countries.

79. The United Nations Centre on Transnational Corporations' EMPRETEC programme (Empresas Tecnológicas) is organized jointly between the United Nations and the public and private sectors. It identifies and selects new entrepreneurial leaders and helps them develop their companies. The participating entrepreneurs have been

encouraged to form associations, which have become the focus of business exchanges, joint ventures, sales agreements and monthly training and information seminars.

80. In response to the lack of funds as a limiting factor in entrepreneurship development, the United Nations Capital Development Fund offers small loans for small enterprise development to the least developed countries. The Fund uses its limited resources not only for direct lending but also as guarantee and as "quasi-equity". Local non-government organizations have been used by the Fund as credit intermediaries. In some countries non-financial institutions have been used to channel credits because of the inability of the financial institutions in those countries to work with small-scale enterprises.

81. By the mid-1970s, the larger multilateral financial institutions, the World Bank and the regional development banks (Inter-American and Asian Development Banks) began to develop projects to provide finance for small enterprises. A recent report of the World Bank's lending programme states that the credit programme achieved its objectives in several of the Asian and Latin American recipient countries where the banking system and the industrial sector were adequately developed. The commercial banks have been cautiously willing to lend the money received from the World Bank to small borrowers under the conditions of refinancing arrangements with adequate lending margins.

82. The Asian Development Bank in Asia and the Inter-American Development Bank in Latin America have also approved substantial loans for small-scale enterprise lending in their regions, usually through the same institutions used by the World Bank. Other banks that have extended loans to small-scale enterprises in the African countries are the African Development Bank, the European Investment Bank, and the European Development Fund of the European Economic Community. Some other bilateral agencies that have provided credits to small-scale enterprises have been the Kreditanstalt für Wiederaufbau (KFW) of the Federal Republic of Germany, the Netherlands Development Finance Company (FMO) and the United States Agency for International Development's Private Sector Revolving Fund. The latter extends loans and loan guarantees at close to commercial terms to private financial institutions in developing countries for lending to local small businesses.

83. When faced with the issue of defining the target group, that is, the enterprise that should be given assistance, most external donors, including the World Bank, leave it to the Government. Owing to the stated objectives of alleviating poverty and of spreading the benefits of the assistance programme, there has been a tendency to assist microenterprises.

84. Beside providing financial assistance to small enterprises in developing countries, donor organizations have also aimed to help influence Governments to adopt more favorable policies towards development of small enterprises and to supply other forms of technical, management and marketing assistance. In some cases, the small enterprise projects of the World Bank have also funded the industrial estates and technical services centres along lines similar to the projects of the United Nations agencies. However, the World Bank has lacked the resources and experience to carry out programmes for non-financial assistance, and its non-financial and technical assistance components have lagged in

implementation. In the later projects of the 1980s, financial assistance programmes and those offering technical and management aid have been better synchronized, improving co-operation between the World Bank and the United Nations multilateral and bilateral agencies.

85. Donor agencies have also tried, especially since the early 1980s, to channel their support through non-governmental organizations because they are less bureaucratic and more in touch with the needs of small enterprises and are well suited to serve special target groups like women and the poor. The advantage here is that the bilateral donors are able to link the private voluntary organizations in the donor countries with the non-governmental organizations in the recipient developing countries. Facing reluctance from the formal financing organizations, the non-governmental organizations have begun to disburse credit directly. Their credit programmes acquire aid from many bilateral donor agencies.

86. It is important that all donors and those directly involved in small enterprise development understand the impact of domestic and international policies on the small enterprise sector. Donor agencies, both multilateral and bilateral, have done a great deal in the past to promote local enterprises and small businesses in developing countries. In some countries, local entrepreneurship has developed rapidly, but in others indigenous entrepreneurs are relatively few and in need of considerable help. The international community still has a major task ahead to help expand significantly the number of indigenous enterprises in those countries. More financial and technical resources and a more positive international economic environment will be needed to achieve this objective.

IX. INTERNATIONAL POLICY ENVIRONMENT AND NATIONAL ENTREPRENEURS

87. The international policy environment has a significant impact on the development of indigenous entrepreneurship. This is important to bear in mind when evaluating the promotional policies of national Governments and the support provided by bilateral donors and multilateral organizations.

88. However, the influence of the international policy environment is difficult to assess, partly because entrepreneurs in individual countries are affected to a different extent and partly because developing countries vary in their level of economic development, degree of integration into the world economy and composition of international trade and finance. In spite of these and other difficulties some generalizations can be made.

89. Export-oriented enterprises in developing countries depend particularly on economic growth in developed countries and to some extent on growth in other developing countries for the expansion of their markets. It appears that growth in developed countries in the first half of the 1990s will be slightly above the average of that in the previous decade. The overall outlook for economic growth in developing countries and thus for South-South trade is less favourable except for East and South-East Asia.

90. Enterprises in developing countries suffer from a variety of trade restrictions inhibiting their access to developed country markets. Overall reduction of tariffs and the resolution of various issues on trade are therefore important points on the international policy agenda. Progress in this area will also benefit the nascent industries.

91. The productivity and thus the competitiveness of export-oriented enterprises in developing countries depend to a significant extent on the availability of foreign exchange for the purchase of capital goods and inputs. In the 1980s the availability of foreign exchange was sharply reduced by the deterioration of the terms of trade, high requirements for external debt service, capital flight and diminished access to international finance. Diversification of exports is one of the medium- to long-term solutions to the vulnerability of developing countries to terms of trade deterioration. It is hoped that effective short- and longer-term solutions will be found to reduce the drain of foreign exchange from debt service and repayment. Furthermore, the confidence of foreign commercial lenders should be strengthened by the implementation of balanced adjustment policies. Adjustment policies in general tend to reduce the demand for goods in the short term and may thus cause transitional problems for enterprise development. High payments for servicing the external debt are also a burden on the government budget and may require, among other things, higher taxes and lower expenditures on infrastructure. Those and similiar adjustment policies will be a disincentive to entrepreneurship development. It will thus be necessary to buffer the cost of the adjustment period for vulnerable, yet potentially viable, enterprises.

92. This task could be facilitated if, in addition to external debt relief and further incentives for an enhanced inflow of capital on commercial terms (including foreign direct investment), additional official development assistance (ODA) could be made available. The growth of aid has been slow in the past decade, in particular relative to the growth of outflows for debt servicing and repayment. The prospects for the growth of ODA in the 1990s are uncertain, and the demand for capital by Eastern European countries might compete with the need for developing countries in this regard.